

Eurofighter*Overpriced, overdue and overhyped*

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Fly in peace*BRITISH Air Is air travel safe from terrorism?*

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Teleworking*A US success is a European flop*

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Capital confusion*Long term investment finds the wrong home*

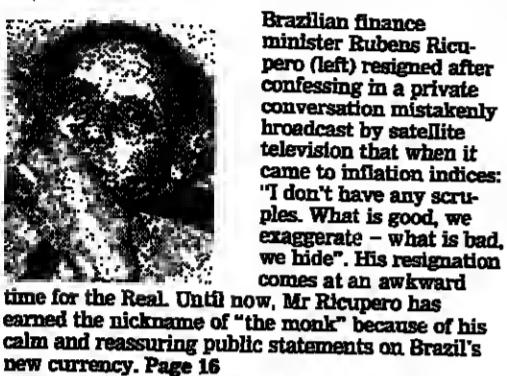
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FINANCIAL TIMES

MONDAY SEPTEMBER 5 1994

D65234

Europe's Business Newspaper

Brazilian finance minister quits over broadcast

Brazilian finance minister Rubens Ricupero (left) resigned yesterday after confessing in a private conversation mistakenly broadcast by satellite television that when it came to inflation indices: "I don't have any scruples. What is good, we exaggerate - what is bad, we hide". His resignation comes at an awkward time for the Real. Until now, Mr Ricupero has earned the nickname of "the monk" because of his calm and reassuring public statements on Brazil's new currency. Page 16

Major insists on IRA guarantees British prime minister John Major insisted he needed a "copper bottomed" guarantee from the Irish Republican Army that its ceasefire was permanent before Sinn Féin, its political wing, could join talks on the future of Northern Ireland. Page 16

Momura chief seeks end to securities tax Hideo Sakamaki, president of Japanese securities company Momura, called on the finance ministry to scrap Japan's 0.3 per cent tax on securities sales to make the country's equity markets more competitive. Page 4

Bermudan link in new fund at Lloyd's Indemnity Insurance Services, a London-based insurance broker, is combining forces with a Bermudan reinsurance company in an attempt to form a Lloyd's investment company. Page 17

US 'rigid' over Cuban refugees Cuba's chief negotiator with the US, Ricardo Alarcón, said Washington had taken a rigid stance over possible moves to stop the flight of Cuban refugees to Florida. Page 3

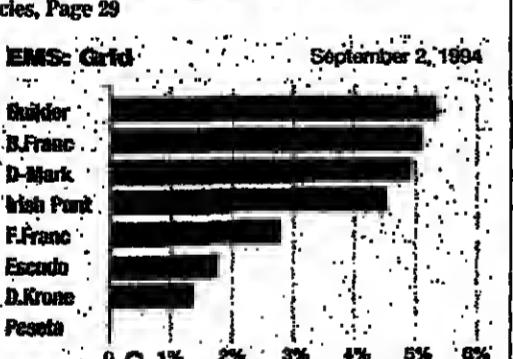
First Financial seeks transfer business First Financial Management, an Atlanta-based information services company, has offered \$600m in cash for Western Union Financial Services, the US money-transfer business. Page 19

Russia and China in trade pact Russia and China signed trade and co-operation agreements promising partnership between them after 40 years of volatile relations. Page 2

Japan's Socialists abandon dogma Japan's two-month-old ruling coalition of left and right was strengthened when Socialist members voted to scrap their most-extreme policies. Page 4

Venezuela seeks economic stability Venezuela approved a programme designed to stabilise the economy and pull the nation out of recession. Page 3

European Monetary System The spread between strongest and weakest currencies in the EMS grid narrowed during the week, although the order of currencies was unchanged. The Bundesbank council met and left German rates untouched. Earlier in the week four French commercial banks had raised interest rates by 25 basis points. Currents, Page 29



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Sime Darby 7.5% ahead Malaysian conglomerate Sime Darby reported a 7.5 per cent improvement to M\$904m (US\$545m) in annual pre-tax profits. The result, although viewed as satisfactory, was below most analysts' expectations. Page 19

Offer for Texaco Canada rejected US oil group Texaco rejected an offer worth C\$200m (US\$145m) for its Canadian subsidiary, Texaco Canada Petroleum, saying the company was an important part of group strategy for North America. Page 19

Govett expands in US Govett & Company, UK fund management and insurance group, has signed a distribution agreement with American Capital Marketing, a US mutual fund group, which it estimates will more than treble its US sales to \$1bn. Page 18

Members to launch Asian trust Hambros Bank of the UK is to launch an investment trust specialising in smaller Asian companies, which it believes should benefit disproportionately from fast economic growth. Page 18

Nigerian oil workers' strike called off Nigeria's two oil workers' unions called off their two-month-old strike aimed at forcing an end to military rule. Page 4

Bumper rice harvest for Japan Hot weather in Japan has brought the best rice harvest in eight years, with the crop expected to produce an excess of 1.4m tonnes. Page 4

Austria	Sw. Franc	German	US\$500	Mark	£10.50	Swiss	CR13.00
Belgium	Fr. 250	Hong Kong	HK\$18	Monaco	MDH15	Swiss	SR11
Denmark	DKR150	Hungary	F105	Monaco	MDH15	Singapore	SG\$4.20
Iceland	ISK1000	Ireland	IR15	Neb.	F 425	Slovak	RPL5.50
Malta	MT15	India	Rs215	Nigeria	Naf70	S. Africa	R12.00
Cyprus	CP1.10	Norway	Nkr550	Norway	Nkr17.50	Spain	Ps22.50
Czech Rep	CZK100	Costa Rica	CR\$650	Portugal	Esc1.50	Turkey	Lir1.50
Denmark	DKR1.10	Iceland	ISK1000	Portugal	Esc1.50	Turkey	Lir1.50
Egypt	EGP1.50	Japan	Y1500	Portugal	Esc1.50	Turkey	Lir1.50
Estonia	ETL20	Jordan	JD1.50	Portugal	Esc1.50	Turkey	Lir1.50
Finland	Fr. 100	Lebanon	LL1500	Portugal (mark)	Esc1.50	Turkey	Lir1.50
France	Fr. 100	Lithuania	Lt1.50	Portugal (mark)	Esc1.50	UAE	Dir12.00
Germany	DM100	Lux	L1.50	Portugal (mark)	Esc1.50	UAE	Dir12.00

EU offers initiative to head off abortion row

By Bronwen Maddox and Mark Nicholson in Cairo

European Union delegates yesterday launched a late effort to prevent bitter differences about abortion from overshadowing the International Conference on Population and Development, which opens today in Cairo.

The EU delegates want to soften the language on abortion used in the draft statement, which has become the focus of angry opposition from religious conservatives.

The debate over abortion has threatened to open up a new divide in international politics with Catholic and Islamic states joining forces to oppose more liberal

proposals primarily from the US and some north European states.

The talks to avert an open dispute came as more than 15,000 national delegates, representatives of hundreds of non-governmental organisations and around 2,000 journalists, arrived in Cairo for the week-long gathering.

The European initiative follows an EU agreement yesterday to a compromise on abortion which could form the basis for a consensus among the 170 countries at the conference.

The EU agreement bridged the conservative stance on abortion taken by Ireland with more liberal proposals favoured by Denmark and the Netherlands. Amendments to the draft docu-

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- Brazil's problems of old age
- Bhutto defies Islamic protests

ment were being circulated last night by EU delegates. The central proposal was to state in the document that "in no case should abortion be promoted as a method of family planning".

However, the concerns of the more liberal Western states are addressed by the proposal to urge in the document that governments "deal with abortion as

a major health concern". The United Nations population fund estimates that 50m-60m abortions are performed worldwide each year and that as many as 250,000 women die each year from poorly performed operations.

The compromise appeared to have won the backing of the powerful US delegation, which has been the primary focus of criticism from the Vatican and Islamic conservatives, who have charged Washington with endorsing abortion.

Mr Timothy Wirth, US undersecretary for global affairs said: "The European Union has come up with a draft language which we think is very promising as a compromise."

Mr Wirth yesterday stressed that the

participants in the conference had reached agreement on "92 per cent" of the proposed text during three years of preparatory discussion. However, several delegations said that the degree of agreement might be under threat during the formal talks on the proposed text which open in closed session tomorrow.

The conference aims to thrash out a consensus by the end of the week on ways of tackling worldwide population growth and family planning. However, the draft text's accent on human rights and the empowerment of women has provoked strong criticism from religious conservatives. They accuse it of endorsing abortion as a means of contraception and undermining family values.

Chirac appeals to Balladur Gaullist split in race for French presidency

By David Buchan in Paris

Tension among Gaullist rivals for the French presidency burst into the open this weekend as Mr Jacques Chirac, the party leader, declared his "passion" for the presidential contest due next year and appealed for loyalty from his former protégé, Mr Edouard Balladur, the prime minister, who now leads him in opposition.

At the annual "summer university" of young members of the RPR Gaullist party, at Bordeaux, Mr Chirac's hold on the party machine he has led for 20 years was amply demonstrated by the chants of "Chirac, Chirac, Chirac", and by the open endorsement he received from Mr Alain Juppé, the foreign minister, who is also RPR secretary-general.

But for the first time, a senior RPR member suggested the party should endorse neither Mr Chirac nor fellow-Gaullist Mr Balladur, in order to avoid being torn apart by their rivalry. Mr Philippe Séguin, the National Assembly president, who prefers Mr Chirac to the prime minister, was reported to have said that such neutrality "would not take a single vote away from Chirac".

In fact, Mr Chirac might gain from being less tightly wrapped in the RPR flag than in his past presidential bids, when he failed to win centrist support.

The more obvious beneficiary of RPR neutrality, though, would

be Mr Balladur, who already has wide appeal for the RPR's coalition partner, the UDF centre-right federation. This grouping is nominally led by Mr Valéry Giscard d'Estaing, but its biggest component, the Republican party (PR), now far prefers the ex-leader, Mr Balladur to the ex-president.

Two PR ministers redoubled their calls for a "unify" candidate within the majority, by which they mean Mr Balladur. Mr Gérard Longuet, trade and industry minister, said: "In contrast to the spirit of the Olympic Games, the important thing [in the presidential election] is to win, not to participate". Mr François Léotard, defence minister, complained of "snipers within the government majority".

Mr Juppé told young Gaullists that Mr Chirac "should lead the way" and he knows that you will be there, and me with you, to follow him". He has thus broken the silence that ministers have maintained for most of this year on revealing their presidential preferences. His action is no surprise, given his RPR post and his feeling of being marginalised sometimes by Mr Balladur on foreign policy issues.

Even so, it may bode ill for discipline this autumn in the government and in parliament, where the RPR leader, Mr Bernard Pons, is urging Mr Chirac to

Continued on Page 16



Appealing to the electorate: German SPD leader Rudolf Scharping (second left) joins in the Mexican wave at a rally in Dortmund to mark the start of his party's general election campaign. Report, Page 16

Peter Rosta

Tory alarm over EU reform plans

By James Blitz in London

Mr John Major, the UK prime minister, is under mounting pressure from Conservative backbenchers to reject French and German proposals for a sweeping reform of the European Union that would exclude the UK from an inner core of EU states.

Tory MPs on both the pro-European and Euro-sceptic wings this weekend urged the prime minister to use a keynote speech in the Netherlands on Wednesday to criticise the proposals, which they fear would relegate the UK to the "slow lane" of Europe.

Euro-sceptic Tory MPs claimed the proposals would mean that Britain paid the full cost of EU membership without getting the benefits. The proposed changes

versions of which emerged in

interview given by Mr Edouard Balladur, French prime minister, and in a document last week by the French government and Germany's Christian Democratic Union (CDU), envisaged the creation of an inner core of five EU states - France, Germany, Belgium, the Netherlands and Luxembourg.

Britain, Spain and Italy would

be in a second tier, which would not be obliged to meet all the criteria of European monetary union. Other European states with weaker economies would be in a third tier. Mr Jim Cran, a right-wing Tory MP and leading Euro-sceptic, said: "The conception laid out in these discussion papers is unacceptable. They will end up consolidating Franco-German domination of the EU."

Pro-European Tories were also dismayed by the proposals, claiming that they were the inevitable consequence of Britain's uncertain policy on Europe.

It will be virtually impossible for Mr Major to ignore the Franco-German proposals, which threaten to open a period of

Continued on Page 16

Editorial Comment, Page 15

BAe challenges Fokker on F1 1bn refinancing package

By Paul Betts, Aerospace Correspondent, in London

British Aerospace is challenging a F1 1bn (S\$665m) refinancing for Fokker, the loss-making Dutch regional aircraft manufacturer controlled by Deutsche Aerospace (Dasa).

The UK company, which like Fokker is a leading manufacturer of regional turboprop and jet aircraft, is expected to ask the European Commission to block the refinancing on the ground that it constitutes an unfair subsidy.

The move is likely to complicate the long drawn-out efforts of BAE and Dasa to merge their respective regional aircraft operations as part of a broad restructuring of the European sector.

Mr Dick Evans, BAE's chief executive, said on Friday ahead of the week's Farnborough Air Show that the European regional aircraft industry needed to be consolidated around one group of

manufacturers similar to the successful European Airbus consortium in the large airliner market. To that end, BAE had extensive talks with Dasa and Aérospatiale of France.

Although BAE remains in contact with Taiwan Aerospace, with which it failed last year to forge a joint venture, the UK company has made clear that it now favours a European solution to its regional aircraft problems.

Mr Edzard Reuter, chairman of Daimler-Benz, which owns Dasa, also said last week that he hoped to reach an agreement with BAE on combining the two companies' regional jet activities.

But the F1 1bn refinancing package for Fokker, announced in July, is now seen as a significant obstacle to progress towards an eventual merger of BAE's and Fokker's regional jet activities.

BAE argues that the refinancing constitutes an unfair subsidy that shores up Fokker's position

in any eventual merger negotiation and further distorts competition in a market already plagued by manufacturing overcapacity and too many competing products.

The refinancing of Fokker includes a F1 600m capital injection from Dasa, which bought a 51 per cent stake in the Dutch company last year, and an additional F1 400m of indirect support from the Dutch government, a minority shareholder

NEWS: INTERNATIONAL

Kohl, Gorbachev clash over eastern land

By Judy Dempsey in Berlin



Mikhail Gorbachev: Heading for a meeting in Bonn

Mr Helmut Kohl, the German Chancellor, and Mr Mikhail Gorbachev, former Soviet president, were yesterday locked in a public dispute, the outcome of which could affect thousands of former property owners in east Germany.

Mr Kohl, who will meet Mr Gorbachev in Bonn on Wednesday, said on German radio that the Soviet Union had linked its agreement on the German unification negotiations to Bonn's acceptance as legal the Soviet administration of what was occupied eastern Germany between 1945 and 1949.

During that time, the Soviet administration expropriated 8.2m acres of land and hundreds of enterprises. The land was subsequently divided and distributed to ethnic Germans fleeing eastern Europe.

Last week, however, Mr Gorbachev challenged Mr Kohl, claiming that Moscow had

never linked the expropriation issue with the Soviet Union's acceptance of the unification talks. Yesterday, Mr Gorbachev was supported in this by Mr Eduard Shevardnadze, his former Soviet foreign minister.

Their reluctance to support

Mr Kohl, who is seeking re-election in October, coincides with claims by former landowners who argue that it was west and east German politicians, not Mr Gorbachev, who agreed among themselves not to give back land to, or compensate, Prussian aristocrats.

The former landowners believe that Bonn used the so-called Moscow veto for different reasons. Bonn, for example, could not financially support full compensation, while the first east German non-communist government should compensate former landowners who were either former Nazi sympathisers or would return and expel the small-bondholders who had been established

by the communist regime.

After German unification, former property-owners, including Daimler-Benz, tried to reclaim their property in the east but were overruled by Germany's Constitutional Court, which cited the existence of the Moscow veto.

These former property-owners are seeking the same rights to restitution and compensation enjoyed by those whose property in Germany was confiscated by the Nazis between 1933 and 1945, and by the East German communist regime between 1949 and 1990.

The meeting of Mr Kohl and Mr Gorbachev follows a crucial compromise agreement by a special joint committee of Germany's lower and upper houses of parliament about how the government should compensate former property-owners whose land was confiscated by the Nazis or the communists.

This accord, expected to be

passed by both houses this month, would end four years of wrangling among politicians it could also help accelerate investment decisions in the eastern German states, dogged by property rights disputes.

Its recommendations include:

- A DM4,000 (\$2,564) payment to those east Germans never compensated for confiscated property under the former communists.

• The level of compensation, to be calculated on the 1935 valuation of land and financed from a DM12.6bn (\$8.1bn) fund.

Depending on the status of the property, the value of land will be multiplied several times.

Former owners will be issued with bonds in 2004, redeemable

five years later.

- Former property owners of the 1945-1949 period will be allowed to buy back a limited amount of their property at a price below the current market value.



Helmut Kohl: Old seizures making new difficulties

INTERNATIONAL NEWS DIGEST

Swedish poll doubts grow

Support for Sweden's opposition Social Democratic Party, favourite to win the September 18 general election, fell significantly last week according to an opinion poll published yesterday. But the swing was strong to the left and not towards the struggling right-centre government of Prime Minister Carl Bildt. The poll showed support for the Social Democrats slipping 3.2 percentage points to 47.4 per cent, the first time the party has fallen below 50 per cent since June. This suggested the Social Democrats will not win an overall majority.

The shift is likely to unsettle financial markets, which have driven up long-term interest rates and weakened the Swedish krona because of uncertainty over how the incoming government will deal with the country's budget deficit and fast growing public debt. Uncertainty over the outcome of referendums later in the autumn in Finland and Sweden on their applications to join the European Union has also unsettled markets. The left in Sweden is strongly anti-EU and a poll in Finland on Saturday showed a strong swing there to the anti-EU camp for the first time in several months. *Hugh Carnegy, Stockholm*

Bougainville peace agreement

The six-year guerrilla war on the Pacific island of Bougainville, controlled by Papua New Guinea, moved towards peace at the weekend after talks between Sir Julius Chan, Papua New Guinea's newly elected prime minister, and Commander General Sam Kavona, leader of the Bougainville Revolutionary Army. A formal declaration said PNG troops and BRA rebels would "maintain static positions" until a ceasefire was announced this week, when a South Pacific peacekeeping force would be sent to the island to ensure the truce was honoured.

The two leaders also announced that a "peace conference" would be convened no later than October 10. This is a positive beginning on a path to peace," said Sir Julius. The Bougainville dispute centres on islanders' demands for self-rule. Tensions were inflamed in the 1970s and 1980s with the building of the Panguna copper mine, operated by Australia's CRA. Local landowners claimed that they did not get enough compensation and that income from the mine was siphoned back to CRA or the PNG government at the expense of the island's community. *Nikki Tait and Agencies, Sydney*

Malaysia detains sect leader

The leader of a banned Moslem sect in Malaysia has been detained under the country's tough internal security laws to prevent him "acting in any manner prejudicial to the security of Malaysia". Mr Ashaari Muhammad, head of the Al Arqam sect, was arrested at the border between Malaysia and Thailand at the weekend after being deported by Thai authorities. Mr Ashaari, with his wife, six-month-old daughter and four followers, is being held at an undisclosed destination under the terms of Malaysia's internal security act, which allows detention without trial for up to two years. Al Arqam, which claims 100,000 followers in Malaysia, was banned by the Malaysian authorities last month. The government said the sect was guilty of deviantist Islamic teachings and described it as the greatest danger to the country since the communist insurgency. Al Arqam says it is being victimised because of its growing influence in Malaysia, which is about 55 per cent Moslem. *Kieran Cooke, Kuala Lumpur*

Ukraine miners die in blast

An explosion at a Ukrainian coal mine at the weekend killed 24 miners and left 15 injured. The mine blast in Slavyav-Serbayskaya at the heart of Ukraine's eastern coal belt and just outside the regional capital of Lugansk, underlined the poor state of the country's coal industry, saddled with ageing pits and outdated equipment. Investigators have yet to find the cause, but methane gas was suspected. Accidents are frequent; some four miners die for every 1m tonnes of coal produced. Last year 212 miners perished in mine accidents; in 1992, an explosion in the Lugansk region killed 57 people. Ukraine's mining sector, now propped up by subsidies from Kiev, needs capital investment and layoffs to prosper in a market economy. But the Kiev government balks at such moves for fear of upsetting a fragile stability in the country's mostly Russian-speaking, over-industrialised and impoverished eastern region. *Matthew Kaminski, Kiev*

Russia curbs MMM adverts

The Russian government has reinforced recent attempts to bring some order to the country's chaotic advertising market by banning the MMM investment fund from advertising in state-run media. MMM, a pyramid investment scheme which sucked in millions of shareholders, has continued to run extensive television advertising campaigns despite the collapse of its share price, the arrest of its founder and government claims that MMM investment certificates are little more than "pretty postcards". Mr Victor Chernomyrdin, Russia's prime minister, has also instructed state-run media not to run advertisements by "organisations attracting investments from individuals and legal entities in violation of existing laws". Last week, the Russian government approved a draft law proposing stiff regulation of Russia's nascent advertising market. It is not clear whether MMM will be able to evade government restrictions by limiting its advertising to private television stations. *John Thornhill, Moscow*

VW to set up plant in India

Volkswagen plans to set up a car factory in India, one of the world's fastest growing vehicle markets. Volkswagen, Europe's biggest and the world's fourth leading car maker, has selected Indian tractor manufacturing group Eicher Motors as its partner in conducting a six-month feasibility study, newspapers reported. The study will help VW decide which models to launch in India, according to the reports, which quoted VW Asia-Pacific chairman Martin Poest. Volkswagen's foray into India comes 12 years after it set up its first Asian joint venture in China. Volkswagen is the latest in a string of foreign companies to target the Indian car market since the government relaxed restrictions on foreign investment last year. *Reuter, New Delhi*

Japanese in Hungary car deal

Suzuki Motors of Japan is to add four-wheel-drive cars to the range produced at its plant in Hungary, under an agreement with the rival Fuji Heavy Industries, which will sell them in Europe badged as Subarus. Up to 12,000 a year will be supplied to Fuji from next year under an original equipment manufacturer deal. The versions of the Suzuki Cultus, currently produced in two-wheel-drive form, will replace a Subaru Justy model which Fuji had previously shipped from Japan. Sales of the model have already been discontinued in the domestic market. The two companies agreed in June to co-operate in developing automatic transmissions, and yesterday's disclosure prompted speculation that they could move to joint development of cars as part of cost-cutting efforts. *Cordon Crabb, Tokyo*

Mazda in Chinese venture

Mazda is to set up a joint venture to manufacture commercial vehicles in Fuzhou, China, from 1996. The Japanese vehicle group's partners are Fuzhou Solid Motors, a local company, the Salim group of Indonesia and Tomen, the Japanese trading company. The venture is expected to call for investment of about Y10bn (\$101m) and to have an annual output of 10,000 pick-up trucks rising to 30,000 in 1997. This is in line with the Chinese government's policy that small truck production should exceed 100,000 units a year. Local parts procurement is also planned to increase to 50 per cent. Mazda already has a joint venture in Haian, in southern China, which produces several thousand commercial vehicles a year. Last year it began licensing small commercial vehicle technology to Fuzhou Solid Motor. *Michio Nakamoto, Tokyo*

INTERNATIONAL PRESS REVIEW

Caution on bridging the divide

N IRELAND

In the dispute over secessionist moves by Crimea, a mostly ethnically-Russian peninsula given to Ukraine in 1954, Russia recently has dealt directly with Kiev, often bypassing Crimean President Yuri Meshkov and most recently rejecting Sevastopol's bid to join the Russian Federation.

The liberal *Süddeutsche Zeitung* settled for scepticism: "The prospects for a permanent peace settlement could be illusory," the paper warned. It was left up to the small *Nordbayerischer Kurier*, based in Bayreuth, to use the ceasefire to reflect on other ethnic and political conflicts throughout the world.

It speculated that if a solution in Northern Ireland was possible, it would be too much to expect that one day "the Kurds and the Turks would sit at the same table, the Chinese would grant independence to Tibet, and North and South Korea might be reunited. Nothing is impossible."

The leaders agreed that the response by the British government to the ceasefire was crucial for determining the future development of the peace process. "The peace prospects now depend on the Unionists and the British government," wrote the left-wing *Frankfurter Rundschau*.

The conservative *Frankfurter Allgemeine Zeitung* went further, in its editorial, the paper blamed the British government for failing to cope with the IRA, but added that the IRA had failed in its attempts to get London to stop protecting Northern Ireland. The FAZ

returned to the subject a day later, arguing that "the IRA has manoeuvred the British government into a situation of impotency. London cannot allow the impression to be created that violence has led to the goal [for peace]."

The paper's editor, Richard Lambert, on the Financial Times, argued that the Southwark Bridge, London's SE1, was "a symbol of the peace process" and that "China has its support to a peace treaty with the US that could eventually lead to the removal of US troops from South Korea."

Irish Americans divided between those who forecast the almost immediate unification of northern and southern Ireland – in five or perhaps ten years – and those who believed the British government would merely seek to exploit the IRA ceasefire for tactical advantage. Many third and fourth generation Irish-Americans are

shaky on the details of the Irish conflict. A good proportion believe that Catholics make up the majority in the north, but they are unwavering in their determination that the British must go.

But one general assumption, expressed by commentators on radio and television shows last week, is that the British people are tired enough of haemorrhaging cash and casualties in

Northern Ireland that they are only too eager to withdraw.

And leaders of one Irish-American lobby group after another hurried to give the credit to President Bill Clinton for encouraging the peace process along by his decision to grant a visa earlier this year to Mr Gerry Adams, the Sinn Fein leader.

Newspaper editorialists were more enthusiastic in their response to the news of the IRA ceasefire, though careful to warn that it was only a first step. The *New York Times*, under the headline "Hope Reborn in Northern Ireland", called the move as "a breakthrough – and things ought to go very badly for any faction that shatters this yearned-for ceasefire". The paper concluded: "In short, the permanent peace seems finally to be here."

The *Washington Post*, while sharing the view that Mr Clinton deserved much of the credit, was more cautious on the future prospects. "The ceasefire, a culmination of years of effort, is only a beginning. But if it holds it will be seen as the breakthrough concession that made real peace possible," the Post said.

By *Judy Dempsey* in Berlin, *John Burton* in Seoul and *George Graham* in Washington

NEWS: INTERNATIONAL

Bumper harvest adds to Japan's rice troubles

By Emiko Terazono in Tokyo

This summer's hot weather in Japan has brought the best harvest in eight years. Unlike last year, when the rice harvest index fell to 74 after heavy summer rains and typhoons, this year's crop is expected to produce an excess of 1.1m tonnes above projected consumption.

However, this is not entirely good news: the agriculture ministry is struggling to rid itself of foreign grains left over from this year's emergency imports. Last year's poor harvest.

caused a shortage of Japanese rice in February, triggering panic buying among consumers.

More than 1m tonnes of Thai and Chinese long grain rice, which is unpopular with consumers, are said to be held in the warehouses of wholesalers and the government. Some retailers, unable to sell the foreign rice, have been dumping it in bagfuls in unused fields, and one Buddhist temple in central Japan has become famous for the many people who come there to feed the pigeons with long grain rice.

The surplus is expected to remain for several years. In the wake of last year's poor harvest, the government eased the rice-reduction policy established in 1971 to prevent an oversupply. As a result, farmers who were forced to turn their paddies into vegetable and fruit fields have resumed growing rice.

Another headache for the ministry is the partial opening of the domestic rice market next year under the Uruguay Round of multilateral trade negotiations. The government will allow imports of up to 4 per cent, or

400,000 tonnes, of the market; this will be raised gradually to 8 per cent over six years. Moreover, farmers in rice-exporting countries, including the US and Australia, which supplied the 2.6m tonnes of emergency imports, are demanding that Japan import the same amount from this year's harvest.

To add to the confusion, the government is trying to revamp the regulated distribution system by relying more on market forces. Earlier this month, an advisory council to the ministry proposed that the Staple

Food Control Act be reviewed for the first time in 62 years. While this is expected to provide consumers with cheaper rice, it could also mean that inefficient rice farmers and wholesalers will be forced out of business.

The good news for the government stemming from the rice saga may be the ¥155.2bn in profits made by its food agency from selling foreign rice to distributors at three times the import price. The government says the profits will be given in subsidies to farmers suffering from last year's poor harvest.

Nigerian regime defeats oil workers' strike

By Paul Adams in Lagos

The leaders of Nigeria's two oil workers' unions yesterday called off their two-month-old strike aimed at forcing an end to military rule.

A spokesman for the leaders of the unions Nupeng and Pen-gassan, who last month were barred from their posts by military decrees, said they had only decided to "suspend" their action "in the interest of the suffering masses, the economy and the oil industry".

The good news for the government is that the oil unions have already returned to work.

"We have asked all our members to resume work immediately, and from tomorrow they should all be back to work," said the spokesman, Mr Arthur Onoviran.

The unions said that they still stood by their demands for the military government to uphold the undecided victory of Mr Moshood Abiola in last year's presidential poll, release him from jail and restore the democratic institutions that were swept aside in November.

Smaller brokers do not share this confidence because of their over-reliance on commission income at a time when the share turnover is low.

The economy was still "in a tunnel" with no sign of the exit, said Mr Sakamaki, pessimistic by contrast with the comments on Friday by the government's Economic Planning Agency that bright signs were gradually spreading.

Pre-tax profits of Japan's top 400 companies last year were barely above the level of a decade ago and their return on equity was poor, 2.7 per cent, by comparison with their US counterparts' 13 per cent, Mr Sakamaki pointed out.

Japan's securities industry has been calling for an end to securities sales tax for years. Demands have intensified recently because of a doubling in the past year in the value of Japanese shares traded in London, where there is no such tax.

High wage costs were a big factor in this. Japanese costs were so high that not even a 100,000bn (1653bn) increase over their 1991,000bn sales last year would bring an increase in profits, he predicted.

lated in their struggle against General Sani Abacha's regime, which has rejected demands to hand over to civilian rule and release Mr Abiola. Strikes in other sectors of the economy were shortlived or haphazard, and the movement to end military rule lacked political leadership, despite strong popular support, especially in Mr Abiola's native south-west.

The end of the strike leaves the government in its strongest position in several months. Mr Abiola and several of his outspoken supporters are in jail, a strike in the most important industry has been broken, the national executive of the oil unions has been replaced by government nominees and the government has carried the army in the clampdown against pro-democracy forces.

Without a government in waiting - a cohesive political movement to take control if the government were to fail to rally the strikers during a long haul - the oil workers could not achieve their aims. The strike has proved that an oil industry stoppage is a powerful weapon in a long campaign against a government in Nigeria but alone cannot bring down a determined regime.

The multinational oil companies successfully replaced strikers at the oil fields with senior management or expatriates usually employed in other jobs, and the government was prepared to accept a 25 per cent drop in exports for the foreseeable future, despite the effect on Nigeria's balance of payments and the long-term damage to the oil industry's investment and production capacity caused by the stoppage.

Mr Abiola's future obviously remains in doubt. He has been in detention since his arrest in June for declaring himself president on the anniversary of his unofficial victory in the 1993 presidential election. He faces charges of treason. Fears about Mr Abiola's health led to repeated demands at the weekend that he be allowed hospital treatment.

Nomura chief calls for more open markets

By William Dawkins in Tokyo

Japan's equity markets must be made more open and competitive if the economy is to recover, Mr Hideo Sakamaki, president of Nomura, Japan's leading securities company, said at the weekend.

He called on the finance ministry to scrap Japan's 0.3 per cent tax on securities sales, to admit more banks to the securities business, and recommended the dismantling of the cross-shareholdings that bind together Japan's keiretsu, or corporate families. "The fewer cross-shareholdings the better," he said.

"The Tokyo market must become fully functional as the heart which pumps blood into the economy," said Mr Sakamaki.

Japan's equity markets were "at the development stage" compared to the US and London, but needed to catch up fast to cope with Japan's transition from a mixed economy to a free market economy, he argued. "The Japanese system is distorted and strained, both in politics and the economy," said Mr Sakamaki.

Japan's securities industry has been calling for an end to securities sales tax for years. Demands have intensified recently because of a doubling in the past year in the value of Japanese shares traded in London, where there is no such tax.

The finance ministry is unwilling to abolish this source of government revenue, on the grounds that Japanese share trades are already lightly taxed. Individual investors, for example, pay no capital gains levy.

Nomura's call for a more open equity market reflects its own confidence in being able to face increased competition, after a partial recovery from its dive in profits in the early 1990s.

Smaller brokers do not share this confidence because of their over-reliance on commission income at a time when the share turnover is low.

The economy was still "in a tunnel" with no sign of the exit, said Mr Sakamaki, pessimistic by contrast with the comments on Friday by the government's Economic Planning Agency that bright signs were gradually spreading.

Pre-tax profits of Japan's top 400 companies last year were barely above the level of a decade ago and their return on equity was poor, 2.7 per cent, by comparison with their US counterparts' 13 per cent, Mr Sakamaki pointed out.

Japan's securities industry has been calling for an end to securities sales tax for years. Demands have intensified recently because of a doubling in the past year in the value of Japanese shares traded in London, where there is no such tax.

Islamic leader offers Algerian truce

By Francis Ghislain

Contacts between Algeria's military leaders and the outlawed Islamic Salvation Front appear to have been stepped up following the offer of a truce by one of the two paramount FIS leaders, Mr Abassi Madani, in a letter to the head of state, General Liamine Zeroual.

This is the first time an FIS leader has suggested a truce could help create a climate in which FIS conditions for peace talks could be discussed. Gen-

eral Liamine Zeroual has said he is keen on creating a dialogue among all Algerian parties which "reject violence".

FIS conditions include the release of all members of its ruling council held in Algeria and permission for those in exile to return, and the guarantee that they can meet freely in Algeria with the Islamic Salvation Army, the FIS armed wing.

According to the Algerian daily newspapers *Liberté* and *El Watan*, General Mohamed

Betchine - secretary general of the presidency, former head of military security and one of General Zeroual's most trusted advisers - visited Mr Madani in Blida prison a few days ago. There are also persistent rumours that Mr Jamel Ouid Abbas, president of the foreign affairs commission of the National Transition Council, an body appointed by General Zeroual earlier this summer, has held meetings with FIS representatives in Lausanne, Switzerland.

China's leaders struggle to keep rampant inflation under control

By Tony Walker in Beijing

China faces a formidable task bringing inflation down to manageable levels this year and has no chance of achieving its revised target of 13 per cent for the year, according to western economists in Beijing.

Economists are forecasting retail price rises of 19.20 per cent for the year, and urban cost of living increases of 22.24 per cent, compared with a national retail price index rise of 13 per cent in 1993 and cost of living rise of 19.8 per cent in the major cities.

China's leaders announced last week that fighting inflation would be the government's main priority for the rest of the year. They also foreshadowed a slowing of economic reforms such as attempts to rationalise state-owned enterprises, many of which are virtually bankrupt.

Premier Li Peng, in his work report in March to the National People's Congress, the Chinese parliament, set 9 per cent as a target for retail price rises this year, but that figure has since been revised to 13 per cent.

The government also has little chance of keeping to its economic growth target of 9 per cent for the year. Economists expect real GDP growth to average 11.5 per cent this year.

Fears of social unrest fuelled by rising prices and lay-offs from state factories prompted a high-level review of economic strategy. Thousands of workers have either lost their jobs or are living on subsistence wages following the imposition of a credit squeeze last year.

Chinese leaders have been walking a tightrope in their

efforts to maintain high rates of economic growth to absorb the unemployed, while at the same time seeking to keep inflation in check by restraining growth in money supply and tightening credit.

Resurgent inflation in June and July pushed the leadership into more decisive measures, including a freeze on price increases on services such as transport and electricity for the rest of the year. Local leaderships were put on notice that they would be held responsible for discouraging price rises.

The ability of local governments to control the retail price index and consumer price index will be used to assess its achievements and will be made public every month.

Fears of social unrest fuelled by rising prices and lay-offs from state factories prompted a high-level review of economic strategy. Thousands of workers have either lost their jobs or are living on subsistence wages following the imposition of a credit squeeze last year.

According to a survey of price movements this year conducted by a western embassy in Beijing, the monthly inflation rate in June and July surged by 29 per cent compared with a slowing last year. Capital spending leapt in July. It was 73 per cent higher than in the same month last year, and surged by 29 per cent in investment in fixed assets last year was one of the main

cause of inflationary pressure that built up through 1993.

Economists doubt that price constraints will be effective over the longer term. Food price subsidies are regarded as "short-term palliatives" and ones that will bring their own problems as they will add to the budget deficit.

Falling producer prices - prices of steel and other raw materials were down sharply this year - suggest there may be an easing of cost pressures in the latter part of this year. However, promised wage rises in the second half of the year will counteract this trend.

Pressures on food prices - the food price index rose by 31.9 in the 12 months to July - are likely to continue. Severe flooding in China's southern provinces and drought in the north have resulted in major crop losses.

Possible further increases this year in grain prices to improve returns to a restless peasantry would jeopardise anti-inflation measures.

The government raised the price of grain by more than 50 per cent to consumers this year, and this was a major cause of the jump in the food price index.

China's leaders face a testing six months. There are no easy choices as they seek to balance a commitment to reform with a perceived political need to check inflation.

Western officials have no doubt that if measures announced this week to restrain price increases fail, the authorities will resort to more draconian measures such as a return to rigid price controls on staple commodities.

The Financial Times
plans to publish a Survey on

The Philippines

on Monday, September 12.

Philippine Series

Companies who advertised in the Philippines survey will also feature in the above series which will be published during week commencing September 12. This is in conjunction with President Ramos' visit to Europe.

The series includes a question and answer session on investment, the economy and liberalisation.

FT Surveys

NEWS: INTERNATIONAL

Mark Nicholson finds the United Nations population and development gathering confused, chaotic and costly

Cairo cobbles together a conference - at a price

Diplomats gnashed their teeth. United Nations officials wore a tired air of resignation. Journalists fumed and sweltering delegates inched their way painstakingly through a glacially slow registration procedure - but the biggest international conference to be hosted by the Egyptian capital was up and running. Just.

It has proved, according to United Nations conference organisers, one of the most nerve-jangling exercises in just-in-time management in their experience. "In 20 years of attending and organising international conferences," said one senior official, "I have never seen such chaos."

UN organisers began arriving a week ago to find empty offices where they expected to find desks, chairs, telephones, faxes and photocopies. Hundreds of local staff had not been hired. Telephone lines out of the press centre were hooked up only two days ago.

But by yesterday, for all the gripes of organisers and some major outstanding difficulties, some UN officials were privately voicing a stunned awe at the conference hosts' ability to throw it all together, more or less, at the last moment.

Some glitches remained. Like the fact that there were no telephones lines into the press centre to serve a world of anxious news editors. Reporters from Associated Press were none too impressed to find that the office they had rented for \$7,000

had been locked up and declared out of bounds for security reasons.

Late-arriving NGO representatives, meanwhile, were grinding through a registration procedure averaging five delegates an hour: a combination of there being too few computers, just two photo-ID machines to process around 4,500 delegates and some fairly grave problems with the spelling of names.

But inside the palatial Chinese-built conference centre 15,000 delegates and representatives ebbed and flowed in purposeful confusion from makeshift offices and halls which will host 100 meetings daily.

In what appeared to be an attempt to lend the affair a subliminal tone of calm and majesty, dozens of computer terminals ranged around the conference centre blared out an end-

less loop of the March of the Slaves from Verdi's Aida.

In what, at the same time, appeared an attempt to give the delegates some sense of urgency, a digital Population Clock in the centre's foyer relentlessly ticked up the growth in the world's population, which at noon yesterday was 5,657,178,226 and rising faster than a person a second.

Outside Cairo has been transformed. Security precautions are extraordinary. White-coated police ring the conference centre at 10-metre intervals and virtually line the main routes to and from hotels. Any one carrying a bag of any sort down the 3km of the Nile corniche in central Cairo is searched. There is at least one security officer on duty for every delegate.

They cite as examples the fact that hotel rates have been fixed at \$145 a

night at all the main hotels, well above the standard Cairo hotel corporate discount rate of \$80 the organisers had hoped for. Hoteliers suggest at least 25 per cent of this goes straight into government coffers. Organisations renting office space have been charged \$10 a day to rent such things as bookshelves and wastepaper bins. Only an outcry forced the caterers to abandon charges of \$8 for a sandwich.

A state department booklet offering orientation and security advice to visiting Americans stated that US delegates should watch out for "scams and rip-off schemes", saying these "often consist of overcharging for merchandise purchased or services rendered" - did this apply to the conference itself, asked one uncharitable US visitor.

Bhutto defies Islamic protests

By Farhan Bokhari
in Islamabad

Ms Benazir Bhutto, the Pakistani prime minister, left for Cairo yesterday to attend the UN population conference, defying intense lobbying by Moslem activists wanting her to stay at home.

The Pakistani government said Ms Bhutto would play an important role in presenting Islamic countries' views. "She will make a very strong statement in which she will reject proposals that are against Islam and will present the point of view of the Moslem countries."

For the past week, Pakistan's well-organised Islamic activists have been worried that international efforts such as the UN conference would impose an "un-Islamic" agenda around the world. Last week, legislators belonging to Islamic parties rose in protest during a session of parliament and demanded that the government boycott the conference.

The protesters believe such issues as sex education, homosexuality, abortion on demand and premarital sex will gain global legitimacy through recognition in a final conference document.

Some government officials were worried that Islamic groups - many of whom also oppose Ms Bhutto in the belief that a woman cannot lead an Islamic country - may try to use the issue to stir opposition against her government. Last week, a prominent religious scholar was quoted as saying that if Ms Bhutto went to Cairo, religious parties may support an anti-government campaign by opposition groups next week.

The debate over Ms Bhutto's Cairo visit has drawn attention to one of the country's most controversial problems. Many officials believe the 3 per cent a year population growth has hampered economic growth. High population growth is also blamed for the government's poor performance in improving literacy, health and welfare.

Youthful Brazil faces problems of old age

Life expectancy is rising while the birth rate is continuing to fall, writes Angus Foster

Brazil looks set to enter the next century with 40m people "missing". According to projections made in the 1970s, its population would reach 212m by the year 2000. But according to latest predictions, the total will be far less, probably 172m.

The reasons for the sharp slowdown in population growth are also seen in other Latin American countries. They include a drastic fall in female fertility rates, mainly due to increased use of contraceptives and rapid urbanisation. The consequences, which include an ageing society and serious strains on social and employment needs, have not yet been addressed.

"It is the population above 65 which will grow the most in the next decades. Brazil will have to live with this phenomenon, which is well known in developed countries, without having overcome typical problems related to under-development," says demographics professor José de Carvalho.

Brazil's population change started in the 1940s. Improved medical and basic services led to falling mortality rates. Fertility rates remained high until the end of the 1960s, leading to rapid population growth and a society with more than half its

members under 20 years old. It also encouraged a belief, still held by many today, that Brazil was blessed with an eternally young and fast-growing population. At the first international population conference in Bucharest in 1974, Brazil's population was 100m and expected to double rapidly.

But the female fertility rate - the average number of births per child-bearing woman - began a startling fall from 5.8 in 1970 to 4.3 in 1975 and 3.6 by 1984. In a recent study of São Paulo state, Brazil's richest, the fertility rate was 2.3, in line with some developed countries.

The fall was partly due to rising education and urbanisation, as families moved from agricultural to industrial jobs. But the main reason was increased access to, and demand for, contraception. By 1986, 65 per cent of women of child-bearing age said they were using some form of contraceptive. Of these, about 40 per cent had been sterilised and a further 40 per cent used the pill. By 1990, contraception use had risen to 69 per cent.

These rates are high, considering Brazil is the world's largest Catholic country with a still conservative church hierarchy. Abortion is illegal unless

The over-65s are set to grow the fastest

the woman has been raped or is in medical danger. Officially, the church promotes the Billings method, which teaches couples to avoid sex during ovulation. But very few couples obey, suggesting the church is, unofficially, more liberal than it appears or losing its sway.

Padre Antonio Carlos Frizzi, whose parish is in the poor suburbs of São Paulo, says cou-

sterilisation has a startling side-effect - it has helped make Brazil the world leader for caesarian births. These account for roughly one in three deliveries, about twice the rate for England and Wales.

The reasons are complex. Some women think caesarian section a "modern" way to give birth, a view hospitals encourage, while others fear the pain involved in vaginal deliveries.

Another reason is that when giving birth by caesarian, a woman can request to be sterilised at the same time and the government pays. Outside pregnancy, women have to pay to be sterilised, usually at semi-legal clinics.

The declining birth rate will transform Brazil over the coming decades. Population growth, which in the 1970s was 2.4 per cent, has fallen to 1.9 per cent and is still declining. Today, 25 per cent of the country's 157m population is under 15 years old. By 2020, the percentage will have fallen to 24 per cent. By about 2040, with a rapidly ageing society, the population will reach about 220m and stabilise or even fall.

This prompts the church and other anti-abortion groups to argue that population control is now obsolete in Brazil, espe-

cially given the country's undeveloped agricultural land. A more stable population will also allow better government planning. In the past, rapid population growth in cities, for example, has prevented governments developing long-term urban plans.

But the changes will also provide some sobering challenges. The number of people of working age is set to grow 2.4 per cent a year for the next decade, adding to pressures on the economy to create jobs.

The social security system, established when the average age at death was 45, must be reformed to cope with life expectancies of 64 and 69 for men and women respectively.

The country's under-funded public health system must emphasise preventative medicine if it is to cope with the increasing demands of an ageing population. Finally, the growing number of elderly from smaller families will need extra services.

Unfortunately, Brazil does not seem greatly aware of these challenges. Because of the government's economic problems, the 1990 census was postponed to 1991. After further spending cuts, only basic findings are available.



US Vice President Al Gore arrives on crutches for the conference with his wife Tipper

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NEWS: UK

MoD faces £500m gap in budget

By David Owen and John Willman

The Ministry of Defence faces a £500m gap in its budget next year if it cannot resolve problems which are dogging a scheme to transfer servicemen's quarters to the private sector.

The ministry will be forced to look for savings elsewhere in its budget, including scaling back its procurement plans if the scheme fails to take off. The Department of Trade and Industry is monitoring developments because it is concerned that UK defence companies could suffer if there are further cuts in the MoD pro-

curement budget.

Mr David Hart, a wealthy businessman who is a close friend of Mr Michael Portillo, the employment secretary, has been brought in to advise on raising the money needed to finance the transfer and modernise the housing stock.

The scheme - unveiled in March and described by Viscount Cranborne, then defence minister, as "a sort of finance lease" - involves creating a non-profitmaking housing trust to own and manage the homes.

For the housing project to deliver the savings projected for the defence budget in 1995 and 1996, it would have to be in

operation within the next 12 months. However, it is thought that the ministry has not received any firm commitments from housing associations or the private sector to get the scheme started.

Under the plan, 65,000 armed services married quarters personnel would be transferred to the housing trust under 30-year leases. The trust would be independent of the Ministry of Defence, but would contract with it to provide accommodation for married service personnel and to improve its quality.

Capital for the deal would be raised in the City of London, secured against the future stream of rental income.

Although there has been a good deal of interest in principle among potential landlords, aspects of the proposals have provoked concerns which the ministry is yet to overcome.

Much of the property is in poor condition and located near military bases, rather than in towns and cities where it could be more easily sold or rented if it is not needed. Some of it is inside secure areas, which restricts its use to defence personnel.

Double have also been raised in the housing association movement over the capacity of the markets to raise an additional £500m a year. Associations currently raise around

£1bn a year to top up government grants for building low-cost homes. With concern over the supply of funds in the future, the Housing Corporation, which distributes the grant, has been trying to attract foreign investors.

Potential investors are thought to have been asked to accept a 30-year estimate of the likely cost of upgrading the accommodation - a proposition which some are said to have regarded as taking on an unacceptable degree of risk.

Mr Hart, a political adviser to Mr Malcolm Rifkind, defence secretary, is helping to devise a plan that meets the government's objectives.

Backing that suggestion. The survey was based on 1,004 interviews by telephone between August 19 and 21.

In a second survey of 500 trade unionists, also commissioned by the TUC, 58 per cent said their job had grown less secure in the last two years and 42 per cent said they were being treated worse by their employer than two years ago.

Writ names Saunders

Mr Ernest Saunders, the former Guinness chief executive, who was released on parole for his part in the Guinness affair three years ago, has been named on a writ as marketing adviser to a troubled publishing venture. Mr Saunders was released from jail the Court of Appeal was told that that he was suffering from pre-senile dementia, a condition resembling Alzheimer's disease.

Mr Saunders is being sued in a legal battle between the two partners in a joint venture called Retail Revolution, which planned to launch 30 magazines to be sold exclusively through petrol stations.

Revenue to increase access

The Inland Revenue plans to merge its five computer systems and allow more of its staff to gain access to taxpayers' personal records, moves which have sparked concern in the main civil liberties pressure group.

It will also provide additional details to the Department of Social Security about employers who are potentially liable for national insurance contributions.

The changes to computer systems come as part of the Revenue's "change management" programme, which includes ambitious modernisation of its computer systems and greater responsiveness to taxpayer demands.

Staff at Revenue tax inquiry offices around the country - and others who answer taxpayer telephone inquiries - will for the first time be able to gain access to all personal tax information.

Mr John Wadham, legal director of Liberty, formerly the National Council for Civil Liberties, said yesterday that he was concerned about the moves.

Britain in brief



Computer spending grows 15%

UK companies have increased their spending on computer systems far beyond corporate projections of a year ago, according to the annual Price Waterhouse information technology review, in a further reflection of rising business investment.

The review, based on a survey of 1,000 information technology executives, indicates that IT spending rose by 15 per cent last year across the corporate sector, a sharp increase given the low inflation rate. At the start of 1993 executives were predicting a rise of only 0.2 per cent.

Executives projected that their IT spending would fall 2.6 per cent this year, however. This raises doubts about the sustainability of the investment recovery, although Price Waterhouse notes that in recent years "the panel has consistently underestimated the coming year's growth".

The survey reflects the marked trend away from mainframe-based systems to new designs based on networks of personal computers and mid-range machines called "servers", with 58 per cent of organisations claiming to have some form of client-server network.

The proportion of respondents feeling more optimistic about the economy nudged up from 44 to 46 per cent. Signs of economic growth were given as the main cause of optimism, while political uncertainty was the biggest inhibiting factor.

• The Finance & Leasing Association says heavy discounting in the summer sales produced a slackening of consumer credit in July.

The association says in its monthly consumer credit and business finance report that although consumers used credit in the sales, it was to buy heavily discounted bargains.

As a result consumer credit of £127.6bn in July was 7 per cent down from June.

Smaller loads for Transrail

The biggest of three British Rail freight companies being prepared for privatisation launches its operations today with a fresh livery and a new service to attract smaller loads off the roads.

Transrail, which specialises in the distribution of bulk freight such as coal, steel and building materials, is creating two "motorways" to take loads overnight between London and Scotland and between the north-east of England and the south-west.

The service, dubbed Enterprise, is expected to be competitive with road haulage for as little as 50 tonnes. At present the minimum viable load is about 1,000 tonnes.

Transrail, which is expected to be sold late next year or early in 1995, expects Enterprise to absorb more than 100,000 lorry journeys in its first year.

The service will be available between Kent and Aberdeen, guaranteeing the arrival of overnight loads in Aberdeen by 8am. The second route will run between Cornwall and Teesside.

Trade union near collapse

Efforts to rescue Ucatt, Britain's biggest construction union, from the brink of financial collapse are being stepped up amid fears that the union's troubles could precipitate a wider crisis of confidence in the trade union movement's finances.

Unity Trust Bank, the trade union bank, is working closely with H.W. Fisher, Ucatt's accountants, in the hope that agreement can be reached by the end of the month on a drastic cost-cutting package that would include staff redundancies and the sale of union offices.

Support for unions grows

As many as 88 per cent of people surveyed in a poll commissioned by the Trades Union Congress believe trade unions "are necessary to protect people's interests at work".

The figure represents a substantial increase on the 79 per cent who agreed with that statement last year.

Fifty-eight per cent opposed any further government laws "to restrict the powers of the trade unions" with 35 per cent

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Job Status

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2 Employed

3 Contractor

4 Retired

5 Student/Unemployed

6 Financial Services

7 Construction

8 Other Services

9 Transport/Travel/Communications

10 Distribution/Hotels/Catering

11 Extraction (Oil/gold/minerals, etc)

12 Manufacturing/Engineering

13 Other (Please state)

Age

1 Under 25

2 26-34

Types of investment currently held

1 Domestic Equities

2 International Equities

3 Offshore Deposits

4 Property

5 Bonds

6 Precious Metals/Gems

7 Unit Trusts/Mutual Funds

8 Other International Investments

99 None

Which of the following do you have?

1 Credit Card (e.g. Visa)

2 Gold Card

3 Charge Card (e.g. Amer)

99 None

Support for rail workers

By Robert Taylor, Labour Correspondent

Britain's striking signal workers will receive massive support this week from the Trades Union Congress, whose annual conference opens in Blackpool today. Union leaders were rallying around the RMT transport union's cause last night.

"This is a thoroughly modern strike," said Mr John Monks, the TUC's general secretary. "It is fully hallotted, fully legal, overwhelmingly supported by signal workers

and strongly supported by the public."

There are people who are trying to divide congress by saying the RMT's strike is a throwback to old-fashioned trade unionism and at odds with what the new TUC aims to do. They are wrong."

He added: "People who say that strikes like this should be a thing of the past are right. But that's a message for the government and Railtrack. It is only a bad employer - in this case backed by a hostile government - who can't settle differences with their employees

by negotiating fairly and openly.

Mr Jiminy Knapp, RMT general secretary, told the rally that Railtrack chairman Mr Robert Horton should stop his threats to dismiss striking signal workers.

Aslef, the train drivers' union, is to move a motion calling for an immediate public inquiry by the Health and Safety Commission into the safety aspects of the dispute. The conflict will be debated by delegates on Thursday when the next 24-hour strike by signal workers is to take place.

Today, Gaz de France imports, transports, stores

and distributes natural gas all over France.

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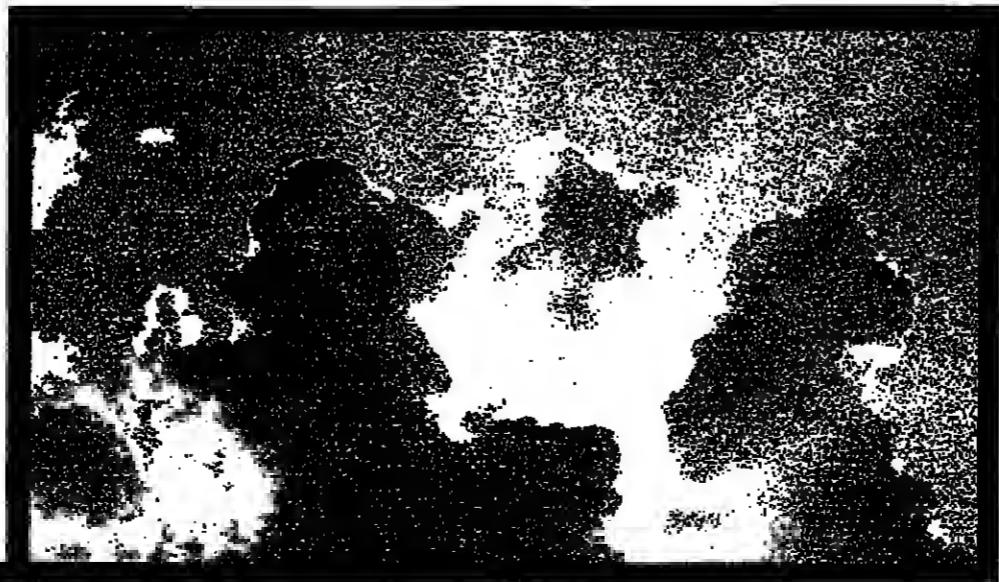
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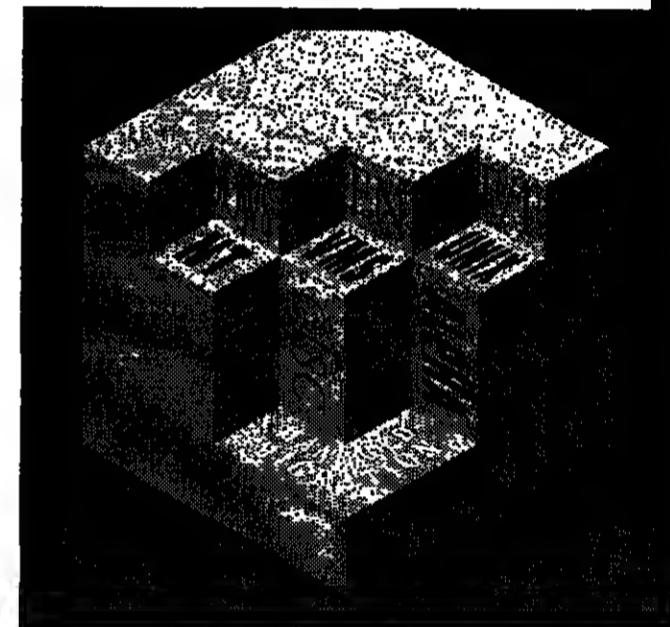
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digital

MANAGEMENT

Teleworking, although popular in the US, has been slow to catch on in Europe, writes Vanessa Houlder

When the office is the dining room

As the UK rail strike moves into its 13th week, it is taking an increasingly heavy toll on British businesses.

Like January's Californian earthquake and past bomb explosions in the City of London, the strike is encouraging companies to consider promoting telework in order to reduce their dependence on computers.

Teleworking, the practice of using computers and telephone links to work away from the office, inspires grand claims from its advocates. In a recent newspaper advertisement extolling companies to introduce teleworking to overcome the rail strike, one British consultancy claimed that the practice "not only overcomes the immediate transport problem . . . it will increase productivity by around 45 per cent".

The potential of teleworking to increase productivity, along with other benefits such as reducing road traffic and creating a more flexible workforce, has won it influential support. The European Commission, which is promoting it as part of its measures on growth, competitiveness and employment, believes that Europe could potentially have 10m teleworkers.

Optimistic forecasts about teleworking's potential have been made for 20 years, since before the technology actually existed to make it potentially reliable and economically.

Yet, even now, the uptake of teleworking is patchy. Although the technological obstacles have been overcome, it is seen by employers as being difficult to manage, while employees worry that their career prospects will suffer if they are not seen in the office.

In the US, where the Clean Air Act has forced employers to reduce commuters' car emissions, an increasing number of employees are being encouraged to spend some or all of their week working at home. The Institute for the Study of Distributed Work, based in California, estimates that between 4m-5m people, or 3-5 per cent of the US workforce, are teleworkers.

In Europe, however, the introduction of teleworking has been relatively slow. In the UK, a recent Department of Employment report cast doubt on the notion that it was "slowly but inexorably growing". Although one in 20 organisations employs at least one teleworker, fewer than one employee in 200 is a genuine teleworker, it said.

This figure excludes self-employed homeworkers and people who spend less than half their time working from home. Nor does it include staff who spend most of their time with clients while using telecommunications to keep in touch with the office. This approach, used by companies such as IBM and Arthur Andersen, allows employees to use a limited pool of desks when in the office - a practice known as "hot-desking".

A Department of Trade and Industry study published early this year argued that the slow speed at which teleworking has been adopted meant that "the UK and the rest of

Europe as a whole are net losers of jobs and trade both to the USA and to developing countries".

The uneven take-up of teleworking can partly be ascribed to the recession. Interest in teleworking increased in the late 1980s, when it was viewed as a way of retaining scarce skilled workers. This became less of a factor during the recession, leaving much of the expansion of home working to the ranks of the self-employed and those who work from home on an informal, occasional basis.

Indeed, many companies that pioneered teleworking have stopped their schemes completely. The

which can work around the clock," says Rosie Symous, one of FT's managers.

Rank Xerox also once associated itself closely with teleworking - to much public relations acclaim - but has now dropped the practice. Its "networking" experiment in the early 1980s involved employees leaving the staff and working on a self-employed basis, with guaranteed work from the company for a period of time. The workers kept in touch with Rank Xerox via computers and a telecommunications link. But although the experiment suited the company's particular needs at the time, it was not

for 2,500 of its 4,000 employees over the last eight years.

This summer it opened a telecentre in Newmarket, the headquarters of its East Anglian operation, which occupies a tenth as much space as its former offices in the town. The telecentre will house just nine staff, working in secretarial or administrative roles. The sales, consulting and customer service staff work from home, their cars, or occasionally from other Digital offices.

But Digital believes that the weak state of the property market may prevent it from disposing of unwanted buildings and so fully realising its planned cost savings.

The financial and productivity gains from teleworking are tempered by obstacles such as the risk of diluting the company's corporate identity in the eyes of employees and customers, senior managers' mistrust of technology, and concern about the security risks arising from the transmission of confidential files.

But perhaps the greatest problem concerns the management of teleworkers. This difficulty is most acute for managers who are accustomed to monitoring their staff closely, rather than setting targets and monitoring results.

This issue was highlighted in a

working for ICL, who now lives on a farm on Orkney, off the north coast of Scotland. The teleworking option, which has been embraced by 300 of ICL's staff, allowed him to abandon his 90-minute-long commute from his previous home to Manchester each day. "I seem to have the best of both worlds," he says. "I earn a Manchester salary and live in a nice, rural environment."

Many individuals with young children are also grateful for the opportunity to work from home, although they are unanimous that it is not a substitute for child care.

Yet teleworking does not always work out well for the employees. A report by the Science Policy Research Unit into teleworking last year chronicled numerous problems, including isolation, family strife and the feeling that home is no longer a refuge from the office. "Unless you are physically out of the house, you haven't left work," said one interviewee.

The experience of teleworkers depends largely on the way they are treated by their employers, according to Huws. She believes that middle managers or professionals who are highly valued by their employers often enjoy teleworking because they continue to feel integrated into the corporate culture. Less privileged workers doing relatively low-grade jobs often suffer from isolation.

Even those employees who embark on teleworking often find it is not for them. Hodson has found that after a few months of a teleworking experiment, more than half of those who volunteer for the scheme are likely to want to return to the office.

A teleworker's potential problems are numerous, including loneliness, distractions from neighbours and family, fear of missing out on promotion opportunities and lack of self-discipline.

These difficulties suggest that companies wishing to make teleworking compulsory will meet resistance from their workforce. Even enthusiasts often find they want to return to the office at some stage, for instance when their children have grown up. "There are stages in people's lives when it suits people to work from home but very few people want to do it all their lives," said Huws.

The problems experienced by teleworkers can often be overcome by encouraging them to come into the office regularly to keep in touch with other staff; this was one of FT's early discoveries. It is a vital part of flexible working to have a social centre", says Stephen Jupp, a consultant at Digital.

Teleworking schemes that require staff to work in isolation need sophisticated management if they are to retain employees and increase the employer's competitiveness.

In some instances, teleworking has brought employees considerable benefits. One case in point is John Ruscoe, a 42-year-old programmer

recent report by the Conference Board, a New York-based business membership organisation, which found that teleworking had been adopted by only 1 per cent of the employees working for companies that offered schemes involving it. Some 75 per cent of the companies surveyed said the greatest hurdle in a teleworking programme was convincing managers that employees can be productive and properly supervised when they work from home.

The low take-up of teleworking in companies with teleworking schemes also points to some ambivalence on the part of staff.

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DESERT ISLAND MANAGER
Sir Richard Sykes

Yorkshireman Sir Richard Sykes prefers to relax on mountain walking holidays rather than by the beach. Nevertheless, the chief executive of Glaxo, the world's second biggest drugs company, relishes the prospect of being marooned on a desert island. He is one of the few scientists who have fought their way to the very top of the drugs industry.

Could you carry on your business from the island?
I might even have a clearer idea of the business than from here in Berkeley Square. I would need telephones, fax and a notebook computer, then could comment on and make decisions from the island. With the extra time I had, it could add up to even better decision-making.

Who would you take with you?
An astronomer. I've always been fascinated by the stars. With those long evenings and clear skies, what a perfect opportunity to study the stars.

What would you take for sustenance?

As a variation from the plentiful fish, I would like to take dried pasta and porcini. They are preserved and should last a while. And to drink, a few crates of Brunello. It would be too difficult to cool any white wines.

Any entertainment to accompany the food and wine?
For music, I would like to take Brahms' four symphonies conducted by Toscanini. He is incomparable. There was a wonderful television series, called *Search for the Nile*, narrated by James Mason. That series would help me associate with explorers and pioneers. And for a book I would take Scott's *Last Expedition*.

Would you become a beach bum?

I'm not the sort of person who would lie around on the beach. I need discipline and would exercise for at least an hour a day. I need to keep in top condition both physically and mentally. I'd need to build that astronomical observatory after all.

How would you keep mentally fit?

Apart from the work running the business, I understand there are some very good bridge and chess programs for computers.

Would you try to escape?
Initially it would be quite nice on the island. But a time would come when I would have to consider alternatives. I'm quite practical and I'm sure I could build what was necessary to leave.

What would you most like about the island?

Solitude. I'd miss my family, but I don't have a problem being on my own. And I would not miss driving down the A40 every day.

What would you dislike about being there?

After a time, it would be there is no access to culture to my family.

Are there any conditions you want to impose on your island?
None. It should be a natural island, unspoiled.

Daniel Green



Department of Employment's report said that "we were surprised by how many [organisations] that used teleworking in the past] had since given up the practice". The reasons given by these companies included job cuts, the departure of the manager who initiated the scheme, the lack of success of the scheme and changes in the circumstances of employees or the company.

He attributes this resurgence in interest to the growing burden of commuting, the sharp drop in the cost of equipment, and the economic benefits of teleworking that stem from the retention of trained workers, increased productivity and reduced office overheads.

This change was precipitated by FT taking on larger projects, which required greater teamwork. "Because of the complexity of the projects we are working on, we need large, closely knit teams

extended to its regular staff. The fear that teleworking is a back-door route to redundancy has slowed its take-up during the recession. But over the past year, the subject has been re-established on the agenda of large companies, according to Noel Hodson, director of SW2000, a teleworking consultancy.

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In Britain, Digital Equipment, the US computer company, saves £20m a year in office costs as a result of introducing flexible working practices.

After property savings, productivity gains are usually cited as the most powerful benefit from teleworking. As well as taking less time travelling and gossiping, staff who work at home are usually found to take less sick leave. When the City of Los Angeles set up a teleworking project after January's earthquake, it found that the staff involved were 12.5 per cent more productive than they had been previously.

But productivity claims should be treated with caution. Ursula Huws, the author of the Department of Employment's report on teleworking, points out that teleworkers are selected because they are trained, responsible and productive. "Having selected those people, it is not surprising they are more productive," she says.

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Tired of the sweet smell of success

Why is it, asked the great and the good of the green movement in a letter to the FT last week, that the media spends more time attacking Body Shop than it does all those thousands of companies that could not cope less about the environment?

The question makes me feel a little uncomfortable. Over the past two weeks I have been reading the knocking copy about the company that brought us peppermint foot lotion. I have to admit it: I long for hotter-than-hell Anita Roddick and her tough husband Gordon to be taken down a peg or two.

I can neither fully justify my aversion, nor can I lay it to rest. Many of the things Body Shop does - giving employees time off to do voluntary work, offering crèvise childcare, buying products from the third world - are admirable.

What gets up my nose is not the sickly smell of the perfumes but the sanctimoniousness of the company's style. Doubtless, I am suffering from the British disease of hating

success, yet there is more to it than that. The Body Shop has put itself on a pedestal so high (it is even thinking of establishing a business school, of all self-regarding things) that it is only natural to want to topple it.

In the last 10 years many other companies have taken big leaps environmentally, but their bosses do not tell us about how well they've done as they stride through the jungle waving American Express cards. Neither would they have the brass neck to claim simultaneously that their company never does anything as filthy as advertising.

As for the specific allegations made during the last few weeks, I would not be surprised to discover that they do not amount to much. Body Shop may be a little stingy in the information it provides about its do-gooding, but it is still way ahead of the pack.

The Roddicks are suffering as a result of their own PR. Anyone who shouts so loud about being perfect is bound to be attacked when

slightest thing goes wrong. And when Body Shop comes in for a bit of stick, it would be better advised to be more relaxed in its response. By publishing 32-page rebuttals of allegations before the latter have even been made, and decrying the "zealots of cynicism" that dare to be critical, the company is asking for it. And when it gets it, we can really be blamed for laughing up our sleeves?

Last week was the traditional time for telling colleagues how well they look after their holidays, and for

now that everyone is overstretched and under pressure to produce concrete results it is particularly hard to justify two days sitting at a green baize table in the ballroom of a big hotel listening to things about your industry you should have known already.

Most conferences are an inefficient way of disseminating information - the chances of picking up any secrets are nil with the competition sitting listening, too. Regular attendees say that the value is in the networking - but in that case conferences for the mid-1990s should be organised differently, with the formal sessions cut out, and the whole thing abbreviated to a few hours of hobnobbing time. Whether anyone would pay £1,000 for that is another matter.

The same disillusionment does not seem to extend to training conferences and seminars, where there is no limit to the sorts of things people

feel the need to learn. The London Personal Development Centre is due to open later this month offering "inspiration, holistic healing and down-to-earth practical skills for individuals and businesses alike". There is a course on Astral Sex and Zen Tea Bags, and another on how to make a drum and use it to get in touch with yourself and your tribe or company. A third, The Power of Dynamic Womanhood, shows women how to win, and invites men along at half price.

The peppermint foot lotion brigade may enjoy some of those seminars; the one that interests me is called "I Love My Job". It includes a "laughing clinic" and teaches you how to treat work as akin to play. Satisfied customers from this seminar apparently include British Telecom and the BBC - two organisations where morale is so low as to be off the map. Next time your telephone engineer starts bumbling cheerfully under his breath, or you meet someone from the BBC who is not moaning, you'll know why.

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The Financial Times plans to publish a Survey on Cities 2000 on Wednesday, October 12.

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DK launches five new titles

Big batch of CD-Roms represents a several million pound investment. Raymond Snoddy reports

Doring Kindersley, the UK publisher which has assembled one of the largest multimedia teams in the world, is about to introduce its first big batch of CD-Rom titles.

The company which won awards for its first title, *Musical Instruments*, is publishing five titles on September 29. These include *The Ultimate Human Body*, *The Eyewitness Encyclopedia of Science* and *My First Incredible, Amazing Dictionary*.

The launch of so many ambitious "edutainment" titles simultaneously, combining words, pictures, sound, animation and video on a compact disc, represents the fruit of a several million pound investment by DK.

The company, which has built up a 120-strong multimedia team, plans to launch another six CD-Rom

titles in the spring and a further six next autumn.

"We are certainly the largest [of this type of company] in Europe," says Alan Buckingham, managing director of DK Multimedia, set up in 1991 to address the emerging market.

Buckingham concedes that this was, to some extent, an act of faith. But he says he never had any doubt about the importance of multimedia — only the timing of its

commercial success. The *Musical Instruments* CD-Rom has already sold between 50,000 and 70,000 copies, with special editions being created for the French and German markets.

One of the new titles takes David Macaulay's best-selling book *The Way Things Work*, which has sold more than 2.5m copies, and crams on a single disc more than 1,000 illustrations and 300 animations to explain more

than 150 inventions. At the click of a mouse, everything from lightbulbs to lasers come alive on screen. The program has a suggested retail price of £7.50, although CD-Roms are often discounted.

A user simply has to click on any words in the text in red to open more than 1,500 screens and pop-ups, and move instantly from an explanation of a machine to a biography of its inventor. CD-Roms can actually show the inside of a

four-stroke engine working.

The *Encyclopedia of Science* (recommended retail price £39.99) has more than 170 main subjects organised into four major categories — chemistry, mathematics, physics and life sciences — with a Who's Who of science and how they made their discoveries.

Forthcoming titles will deal with topics ranging from electronic and world history to electronic atlases and travel guides. Buckingham, who used to be a DK book editor, set out in 1991 with a team of five "to teach ourselves how to make this stuff".

He believes books have to be "reconceived" for multimedia, rather than simply turned into electronic form. The big question for DK, a quoted company capitalised at around £20m and in which US software giant Microsoft has a 20 per cent stake, is how

quickly the consumer market for CD-Roms will grow.

The company estimates there are about 80,000 to 100,000 CD-Rom machines in domestic use in the UK but that number could quickly double or even triple.

The market is much larger in the US, and Buckingham believes that, by the end of this year, 10m homes could have a personal computer which can play CD-Roms.

There are even strong signs that from next year most personal computers in the US may be shipped with CD-Rom capacity as standard.

If so that could provide a growing market for titles such as *The Way Things Work*, *Encyclopedia of Science* or Stephen Blythe's *Incredible Cross Sections Stowaway* — an amazing quest through an authentic 18th century warship!



National security tap dance

Motoko Rich reports on the battle over Internet-based encryption codes

Officials in most countries would agree that the recent spate of plutonium smuggling poses a serious threat to international weapons security, and want to prevent the build-up of nuclear material in the storage banks of would-be nuclear states or international terrorist groups.

In some countries, governments are not just worried about nuclear weapons. They fear that encryption codes — programs for scrambling private messages — can be deadly in the hands of potential enemies.

During World War II the Enigma code, the German encrypting machine, which the Allies cracked and used to eavesdrop on Nazi communications, was a vital key in the Allied victory.

But today, just as plutonium is frighteningly simple to transport in a suitcase, encryption codes are easily transmitted via the Internet, the global computer network.

where there are no national borders and no customs agents to stop smugglers.

These codes consist primarily of complicated computer software which scrambles electronic messages and requires "keys" — extended versions of the familiar ATM pin number — to decode them. With the explosive use of the Internet for both personal and commercial reasons, security has become a major issue and such codes offer comfort to users worried about their privacy.

Businesses want such codes to protect their sensitive data. Civil rights advocates argue that encryption codes are essential to guard against unwanted surveillance. Human rights organisations in the former Soviet Union, South America and Burma are said to be using computer cryptography to protect their Internet messages from the eyes of the police.

On the other hand, some governments argue that if

encryption codes are widely available on the Internet, any individual or group — including potential terrorists or enemy states — will also be able to protect their messages from national security organisations.

In the US, the government demonstrated this argument in its proposal for the Clipper Chip, an encryption code developed by the National Security Agency which would have allowed computer users to scramble their messages but would also have allowed law enforcement or intelligence agencies to tap in.

But many software authors have developed sophisticated programs which incorporate encryption technology that is virtually uncrackable. It is this technology that governments fear.

In the US, it is against federal law to export strong encryption codes. For the past 18 months, a US federal grand jury in San Jose, California has been investigating whether

Philip Zimmermann, author of the computer software PGP — for Pretty Good Privacy — had a role in putting his cryptographic software on the Internet and thus allowed it to be exported.

Zimmermann denies having loaded PGP on the Internet, though he is pleased that the software has circumnavigated the globe and claimed he invented the code in part for political reasons.

"If we allow the government to have the technological power to monitor every movement of the political opposition, then the normal mechanisms we have to change our government may be neutralised," he said.

PGP is available commercially in the US from Viacrypt, an Arizona-based software company, for \$100. Leonard Milks, president of Viacrypt, believes the government's efforts to ban the export of PGP, or any similar technology, is futile because anyone could have put it on

the Internet. "The information is now available and there is no way to bottle it up," he said. "Anything you do to try to stop it is artificial." He said the US's export ban merely stymied multinational companies which wanted to use US technology to protect their data. Other US firms complain the US law just creates unfair competition because other countries, including the UK, are not as strict in enforcing export laws on cryptography.

Phil Dubois, Zimmermann's lawyer, said he could face a prison sentence of up to four years if he were convicted by the grand jury. But he said he wasn't sure why the government was singling out his client. "The fact is that this sort of software is out on the street in every country," he said. "And it's not just because someone here has broken the law but because everyone else is as smart as us and they have created their own cryptography."

personal consumers, who wants low up-front prices and a simple usage package.

That may be about to change. Sweden is pioneering calling-party pays paging. Pagers are available on the high street for less than \$150, with immediate connection.

In the UK, several initiatives are under way. One of the most adventurous is a pilot scheme to make alphanumeric paging available on a straight calling-party-pays basis.

Alphanumeric pagers are the most advanced of the range, allowing callers to leave long text and numerical messages displayed on a large screen on the pager.

Student Pager, the private company undertaking the pilot, is launching the service with 8,000 students at the two universities in Nottingham at the start of the coming academic year. The students can hire the pager for a flat fee of £39 to cover their course

duration. They can then tap into four channels of information about lectures and student or local events.

They can also receive messages, which callers leave by phoning a Mercury Paging bureau at premium rate. The premium rates are 39p off-peak and 49p daytime, so messages will cost between about 20p and 50p each to leave. The total charge is a fraction of the cost of running a mobile phone.

Student Pager plans to go nationwide next year. Paging operators will monitor its progress carefully; conventional wisdom holds that an alpha-numeric service is too expensive to provide on a calling-party-pays basis unless the charge is higher than standard premium-rate. The problem is burreau costs, which are high — and cannot be avoided given the current state of voice-recognition technology.

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Export Forums

Running in parallel with the Awards, a series of regional Export Forums are being held across the country in which people from exporting businesses can get together with the experts to share solutions to export problems. Attendance is FREE to delegates from UK exporting companies.

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Interactive child's play

Victoria Griffith assesses the boom in learning programs

The advent of CD-Rom and sharply falling prices for powerful multimedia computers have triggered a boom in children's learning programs.

Parents are investing in software and CD-Rom programs that teach their children reading, mathematics, geography, foreign languages and other skills. The programs often include dazzling animation, sound, and motion picture clips to capture the attention of young users.

The US market for children's educational software and CD-Roms grew an estimated 25 to 30 per cent last year, according to the consumer research group Packaged Facts, and has now reached about \$1bn in annual sales.

The number of companies in the market is also increasing strongly, with start-ups like San Francisco-based Big Top Productions now putting out titles and giants like IBM and Microsoft moving in. Microsoft launched a new line of home educational software last year, and IBM, already active in the schools market, hopes to launch products for the home shortly.

Hope Neiman, vice president of marketing for Knowledge Adventure, an educational program maker. "The philosophy is that if children are going to play with games anyway, they might as well play with something they can learn from."

The most successful learning programs are investing in software and CD-Rom programs that teach their children reading, mathematics, geography, foreign languages and other skills. The programs often include dazzling animation, sound, and motion picture clips to capture the attention of young users.

CD-Rom is prompting especially rapid growth in the preschool market. "Very young children don't have the text and motor skills required to use the older, less sophisticated programs," says Robert Davidson, president of Davidson & Associates, which excels at educational programs.

Frustration over increasingly violent video and computer games has also fueled the educational program surge. "There is a backlash against violent games and parents are searching for alternatives," says

hopes to launch similar products for the children's market soon.

"There is a deeply felt need to socialise through these programs," says Wilker of Broderbund. "The expansion of this to more than one computer — so children in two different households can play with each other — is inevitable." Manufacturers also foresee an onslaught of educational programs that allow users to access databases through on-line services.

Digitised voice and voice recognition technology will play a role in the industry's development. "Voice recognition technology is important for our language programs," says William Dinsmore, president and chief executive of the Learning Company. "In one or two years, we believe it will be a big part of our mix."

While growth has been strong, most people in the industry believe it has a long way to go before it reaches maturity.

With technology improving rapidly, the children's educational sector will probably ride the boom for some time to come.

CONFERENCES & EXHIBITIONS

SEPTEMBER 6-8

INFRAIRAIL 94
Three-day international trade exhibition of products and services for railway infrastructure to be held in C-MEX Centre, Manchester, England. Over 155 organisations from 13 countries are taking part in this very timely event. Exhibition is supported by two associated one-day seminars organised by the Institution of Civil Engineers.

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At Finmex Conference Centre, BCCR. Full details - Roy Gilbert Consultants Phone/Fax 0276 683985

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Contact: Sandra Aldred
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Tel: 044 71 779 8605 Fax: +44 71 779 8795

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BUSINESS TRAVEL

Flight ban

On Friday, the Federal Aviation Administration said airlines in nine third world countries failed to meet international safety standards and have been banned from flying to the US. It also gave conditional approval for continued flights from four other countries and said their safety standards would be kept under close scrutiny.

The nine countries which did not meet minimum standards were: Dominican Republic, Belize, Honduras, Nicaragua, Paraguay, Uruguay, Gabon, Ghana and Zaire. The four put under continued close review were: Bolivia, Netherlands Antilles, El Salvador and Guatemala.

Beirut strike

More than 2,000 travellers bound for Europe, North Africa and Gulf states were stranded at Beirut International airport on Friday when flight crews of Middle East Airlines, Lebanon's national carrier, went on strike Friday demanding a pay increase. The open-ended strike by 300 pilots and flight engineers grounded at least 10 MEA aircraft.

The strike was launched at the height of Lebanon's annual summer travel season.

Airline officials said negotiations were under way between the strikers and management of the state-owned airline.

Latvia plan

Scandinavian Airlines and a US-based investment firm presented plans on Friday for a new international carrier based in Latvia.

The plan, which was requested by Latvia and seems assured of approval, calls for replacing two current Latvian airlines with one system-based in Riga. The new carrier, which has not yet been given a name, would use the Latvian capital as a hub and initially would fly within the Baltics and neighboring countries.

Ukraine flight

After more than two years of unsuccessful attempts, Ukraine's financially troubled national airline began a service from Kiev to Hungary last Thursday.

Air Ukraine has announced several times since 1992 that it would start a twice-weekly service to Budapest, but was unable to do so due to technical and financial problems.

Strike threat

Last Thursday, British Airways cabin crews at Manchester and Birmingham backed strike action in a ballot by the Transport and General Workers Union.

Meetings are now to be held to try to resolve the dispute, which is over holidays and allowances affecting air hostesses and stewards.

Three-quarters of the 563 cabin crew union members at the airports returned their papers in the ballot.

A total of 88 per cent backed a strike, while an even bigger proportion, 85 per cent, supported other forms of industrial action short of a walkout, said the union.

Virgin to Australia

Richard Branson's Virgin Atlantic is to start services to Australia in partnership with Australian airline Ansett.

The two carriers have formed a marketing partnership, which means Virgin will be offering 2889 London-Sydney return tickets.

Passengers will fly Virgin from London to Hong Kong and then take an Ansett flight to Sydney, with connections to Brisbane and Melbourne. There will be three flights a week from September 10, increasing to five in the New Year.

Likely weather in the leading business centres

	Mon	Tues	Wed	Thurs	Fri
Delhi	26 30	26 31	30	29	28
Hong Kong	25 31	25 29	31	25 31	31
London	24 28	24 29	25	26	25
Frankfurt	24	21	19	20	20
New York	25 29	25 29	24	25	25
Los Angeles	24 28	24 29	25	26	25
Paris	22	20	20	19	18

Minimum temperatures in Celsius
Information supplied by Meteo Consult of the Netherlands

'Stunning' Kansai opens its doors

By Michiyo Nakamoto in Tokyo

Kansai International Airport opened yesterday. "Take-offs and landings went very smoothly," said Tsumeharu Hattori, airport president. But 19 flights were delayed for up to 65 minutes - owing to the malfunction of an air traffic-control computer - and he acknowledged that the opening, after seven and a half years of construction, did not give cause for "unalloyed joy".

"We are still learning from problems, and if two more runways are to be built soon we will need more support from the Kansai region," he said.

Kansai is built on a man-made island off Osaka and is Japan's first major airport to operate round the clock. It has a daily capacity of 454 arrivals and departures. But, partly because of high landing fees

and passenger service charges, only 339 international and 469 domestic weekly flights were scheduled by the time of the opening.

For harried business travellers who do use the airport, Kansai is likely to offer plenty of visual appeal with a stunning terminal building designed by Italian architect Renzo Piano.

Transit passengers to other cities in Japan will also find the airport designed to meet their needs, with flights taking off to 24 domestic destinations from the same terminal building. Passengers are only required to move either up or down a floor by escalator or elevator.

A shuttle that runs along the length of the terminal building at frequent intervals ensures that moving from one end of the long building is a smooth and easy process.



Kansai designed by Italian architect Renzo Piano.

For passengers travelling on to one of the major cities around Kansai International, such as Osaka, Kobe or Kyoto, or to other parts of Japan by train, the airport offers the convenience of direct access to the railway station through the terminal building.

If taxis or personal cars are the preferred method of transport, the airport is linked to two major expressways that run to major cities, with an estimated driving time of one hour to Osaka and 70-minutes to Kobe.

Kansai also offers a boat service into Osaka. This takes about half an hour. But whatever route is taken, the high costs of public transport from the airport are guaranteed to shock the first-time visitor.

The 3.75-km bridge linking the airport to the main island costs cars Y1,700 (\$17) to cross, the JR train ride to Shin-Osaka

station is nearly Y3,000, and the 35-minute boat ride to Kobe, to which there is not direct train link, is Y2,490.

At around 6am yesterday, The Crystal Wing was the first ferry to make the 30-minute journey from Kobe air terminal to the airport island. But, due to engine trouble, another boat, the Pearl Wing, had to return to Kobe at around 7am. The 173 passengers were transferred to another boat.

In a related development, an accident involving a hydrofoil carrying passengers from the port of Kobe to the airport forced more than 100 passengers to miss their flights.

Airlines keep their guard up

Charles Jennings

looks at the security implications of declining terrorism

Cards the Jackal may be behind bars, Israel may be entering into peace agreements with its neighbours and the IRA may have declared a ceasefire; but there is to be no slackening of airline security procedures.

As a spokeswoman for United Airlines puts it: "Security won't change. We'll keep operations absolutely 100 per cent as they are." This is a theme echoed by El Al's famous lengthy cross-questioning of passengers before they get on a flight, for instance, manages to both rattle (it takes ages) and at the same time profoundly comforting (at least a Leila Khaled is less likely to be on board).

Some airlines are so uneasy at the prospect of even discussing security - in conditions of reduced global tension or otherwise - that they can barely utter the word to cross their lips. As Air France (which has recently re-introduced scheduled flights into Beirut) says: "There's one subject that airlines won't talk about, and that is security."

A British Airways spokesman did break ranks, and promptly tied himself in knots trying to say something without actually revealing anything. "The only answer I can give is that a large part is intelligence. We liaise with all the intelligence authorities around the world and adjust our measures to suit." Meaning? "You've got a very high level of security measures at all times anyway and we can go up two or three notches from that that security must not only be

or two. But it remains at a very high level."

For the airport authorities, as well as the airlines, the fact is that to talk about security is to some extent, to breach security. And no one in their right mind is going to advertise, say, a slimming-down of baggage checks, even if such a thing were on the cards. According to the British Airport Authority: "The thing about security is that we review it constantly and we certainly wouldn't be making any reductions. The process of review never stops, it's an ongoing situation."

In fact, much of Britain's airline and airport security is mandated directly by the Department of Transport.

There is a bottom line imposed by the DoT, below which carriers may not go; although they can add further procedures as they choose. Some of the more recent DoT regulations include checks on baggage going into the holds of aircraft (in addition to the hand luggage

line and security arrangements for airport staff, and making it an offence to give false information about the contents of one's baggage.

Having raised the stakes to their current height, there is clearly no easy way to lower them again. In Japan and the US, where the IRA, the Red Brigade and the PFLP have not been so active, flight security can sometimes seem extremely relaxed. But elsewhere air travellers will continue to face the same hours of tedium that they have come to know so well over the last two decades.

ARCHITECTURE

View of Wardour's hidden treasures

Colin Amery on the castle's restoration appeal

Wardour Castle, in Wiltshire, feels like the setting for Brideshead Revisited. It is one of the great 18th century houses of England. It was built for Lord Arundell in the 1770s, with both a house and chapel designed by James Paine. Outside they are severe and uncompromising. Inside, they both contain brilliant surprises. In the house, there is a staircase that is an architectural tour de force and the whole interior of the chapel is a decorative triumph.

The recent history of Wardour has not been entirely happy. In 1990 the great house became Cranborne Chase School. Inevitably new buildings were added, and alterations were made that changed the character of the place. The school closed a few years ago and the house has been sold to be divided into apartments.

The chapel had an independent existence run by the Jesuits who have cared for its treasures, and in 1992 a programme of structural repair was undertaken. An appeal was launched and funds are needed to complete the work.

As part of this appeal an exhibition and sale of paintings has been mounted at Christie's in London. One hundred artists were commissioned to paint their impressions of Wardour and the results are on view at Christie's in Ryder Street, St James's, London, SW1, until September 9.

During this week it is not just the paintings that are on view but also a display of some of Wardour's hidden treasures. There are historic vestments of extraordinary quality as well as silver and gold - a reflection of the panoply of worship from the 18th century.

Short of visiting the chapel itself (Wardour is near Tisbury, in Wiltshire) it would be difficult to think of a more imaginative evocation of a



Wardour chapel: interior is a decorative triumph

great building than this exhibition.

Although technically a private chapel, it is the size of a major parish church. James Paine finished it in 1776 and Sir John Soane added to it in 1790. Its visual climax is the sumptuous altar which was commissioned from that master of the Roman Baroque, Giacomo Quarenghi.

Great and splendid rituals must have been conducted around this altar and they were enhanced by the vestments and precious vessels.

It is important not to miss the vestments which are some of the finest examples of ecclesiastical needlework to be seen anywhere.

The three-dimensional quality of the work on the famous Westminster chasuble is staggering. Tudor roses, porcupines, fleurs-de-lis and pomegranates are scattered across red velvet with a liberality that is gloriously extravagant. We are

in the arcane world of the orphrey and dalmatic, the cope and the chasuble - theatrical yet sacred garments that are a far cry from the hessian cross stitch garments that pass as vestments in the modern catholic and Anglican church.

There are several paintings that evoke the chapel well - work by Alan Dodd, Edmund Fairfax-Lucy, Jane Dowling and Riccardo Cinalli is some of the best. There is enormous variety and work in all media - even a set of painted porcelain teapots, cups and bowls inspired by Wardour and made by Melinda Paton.

The idea of encouraging temporary artists to contribute their work to help save an older work of art is an inspired one. Wardour Chapel of All Saints is celebrated by this exhibition and shown to be one of the great 18th century churches of Europe that deserves to be perfectly restored.

INTERNATIONAL BANKING

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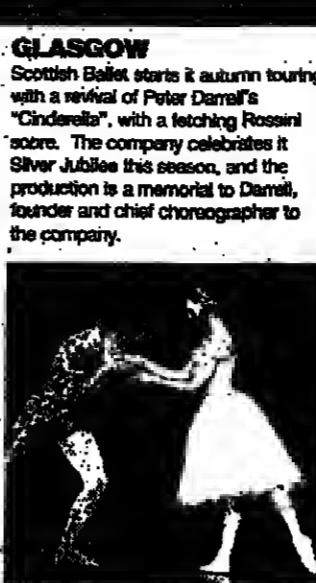
NEW YORK
New York City Opera starts autumn season at the Lincoln Centre on Thursday. The main interest in the opening week is the first night on Saturday of a new production of Borodin's *Prince Igor*, not seen in New York since City Opera's first production in 1988. The cast is headed by several Russian principals, and Damjan Wozzel of City Ballet will choreograph the Folksong Dances. The season runs to November 20.



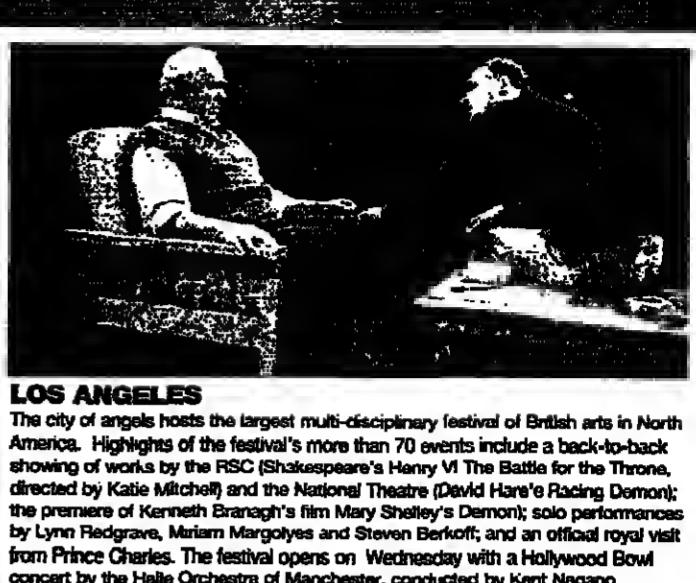
MANTUA
The first exhibition to be devoted to the Renaissance genius Leon Battista Alberti opens at the Palazzo Te (left) on Saturday. He not only left a legacy of innovative buildings (two in Mantua), but he, brilliant theorist, wrote treatises on painting, sculpture and architecture that put those arts on a par with literature and philosophy. In the 16th century, the show includes computer-conjugated scale models, drawings, miniatures and first editions, lent by American and European museums and private collectors.



LONDON
King Sunny Ade and the Africa Basset bring their juju music to Europe this week with concerts at Amsterdam's Paradiso on Wednesday, the New Morning in Paris on Thursday and London's Royal Festival Hall on Friday. Fusing traditional Yoruba folk tunes with Ghanaian highlights, the twenty voices, electric guitars and talking drums make intoxicating dance music. Will the R&B arias be able to cope?



GLASGOW
Scottish Ballet starts its autumn touring with a revival of Peter Daniell's *Cinderella*, with a fetching Rosalind. The company celebrates its Silver Jubilee this season, and the production is a memorial to Daniell, founder and chief choreographer to the company.



LOS ANGELES

The city of angels hosts the largest multi-disciplinary festival of British arts in North America. Highlights of the festival's more than 70 events include a back-to-back showing of works by the RSC (Shakespeare's *Henry VI: The Battle for the Throne*, directed by Katie Mitchell) and the National Theatre (David Hare's *Racing Demon*); the premiere of Kenneth Branagh's film *Macbeth*; solo performances by Lynn Redgrave, Miriam Margolyes and Steven Berkoff; and an official royal visit from Prince Charles. The festival opens on Wednesday with a Hollywood Bowl concert by the Hallé Orchestra of Manchester, conducted by Kent Nagano.

Barricades up at the Bastille

A time-bomb has exploded at the Paris Opéra with the sacking of its music director. Andrew Clark reports

When the Paris Opéra meets today for the first time since the summer holidays, it is unlikely to make music. The players are almost certain to vote for a strike in support of their sacked music director, Myung-Whun Chung. Without an orchestra, the Opéra will be unable to open its seasons in two weeks' time.

A strike at the Opéra is nothing new. It has been a financial, administrative and artistic mess for the past 15 years. Its huge, high-tech Bastille headquarters – inaugurated in 1989 as one of President François Mitterrand's *grands travaux* – has only made matters worse, lurching from one catastrophe to the next.

But this dispute is different. It is the first major upset to the French government's plan to restructure the Opéra, restore its artistic credibility and reduce its deficit. That plan places complete executive power in the hands of one man – Hugues Gall, an internationally-respected opera administrator who currently runs Geneva's Grand Théâtre. He is due to take up his post in Paris next summer.

Gall, assisted by the Opéra's interim management, opened talks with Chung in March, aimed at renegotiating the Korean conductor's lucrative long-term contract. As it stood, the contract invested Chung with artistic powers which Gall himself expected to assume. Gall wanted to reduce Chung's responsibilities, to shorten the contract and limit his pay. At the end of June, Chung received an ultimatum saying that unless he accepted the terms offered, the contract would be annulled. On August 12, he was dismissed.

Since then, the conflict has descended into a legal tussle, with Chung waging a vociferous public campaign to portray himself as the wronged party. He appeared to win an important victory last week when a Paris court ordered his reinstatement – at least until the grounds for his dismissal were clarified (which might take months). But the ruling could not be enforced: by a quirk of French law, no-one can forcibly enter a public establishment against the wishes of its management. On arriving at the Bastille, Chung and his lawyer found their way to the rehearsal room barred by the interim director, Jean-Paul Cluzel, and a posse of security men. The locks to his office had been changed. His furniture was impounded.

Until now, Chung has had the biggest voice in the Opéra's artistic decision-making. He had a free hand in choosing repertoire, guest conductors, production teams and singers. His contract guaranteed him a minimum 30 performances a year, rising to 50 over an eight-year

period. His fee for each performance would have increased from FF180,000 (£10,000) in 1992 to FF177,000 (£20,000) by 2000. He was also paid a salary as music director. The package was worth FF12.5m a year at the time of his dismissal – or FF13m (£1m) by the end of the decade. It was a time-bomb planted by Pierre Bergé, Chung's patron and friend of President Mitterrand, in the dying months of the last Socialist government. Bergé knew it would blow up in the face of an incoming centre-right administration with its own ideas about how to run the Opéra.

Chung's pay made good headlines, but the crux of his conflict with Gall was artistic power. "Gall made it clear he had to take all the decisions," says Chung. "Of course you need a strong man at the top,

but not a dictator. I have never taken decisions alone on casts and production teams. In any normal situation, the management discusses these with the conductor, and a decision is taken by mutual agreement. Under the terms I was offered, they could have told me to conduct 40 ballet performances and I would have had no choice."

Chung was appointed shortly before the Bastille opened in 1989, a little-known 36-year-old who did not even speak French. The Opéra orchestra had been decimated by months of inactivity. In the five intervening years, Chung has been the only stable element in the Opéra's administration. While a string of managers came and went, Chung filled the vacuum and accumulated power. He made the orchestra his priority – defending

its rights, improving standards and bringing in lucrative recording work. He enjoyed his job at the Bastille, and wanted to continue. Chung's dedication and skill earned him the respect of a notoriously fractious group of musicians. "It was anarchy when he came", recalls the cellist Marc Latajat. "He did a good job, he raised our profile. We had concerts, recordings and tours, so we weren't always stuck in the pit. Nobody will do this for us in future. We need a music director to keep discipline and resolve our problems. Now someone wants to destroy the only thing that was good in this troubled house."

Gall had always made clear that Chung would not figure strongly in his plans. He did not need a music director, at most, he wanted someone to keep the orchestra in shape.

Gall set out his plans in a report last autumn. He would stick to

agreed spending limits. He would close both theatres (the Palais Garnier and the Bastille) at different times, to carry out the repairs and investment necessary to their efficient running. He would transfer the grand classical ballets to the Bastille, and return a select slab of the opera repertory to the Garnier. He would provide a quick injection of what the Opéra has been missing – mainstream repertory in non-weird productions, capable of being frequently revived. On the basis of these reforms, he hoped to lure back the top-rank conductors who have shunned the Opéra since the Liebermann era.

Gall is viewed by most observers as the one person capable of sorting out the Opéra's problems. His only mistake so far is to have expected Chung to go quietly.

Pop concert
Jeff Buckley
moves out of the shadows

It is Jeff Buckley's misfortune that this, his first major European tour, will be the one in which his work is repeatedly compared with that of his late father, Tim. He had better just get used to it and move on. As his debut album, *Grace*, shows, he has the talent and confidence to move out of the shadow of one of the brightest stars in the fragile firmament of 1990s singer-songwriters.

When Buckley's père tended towards jazz-tinted melancholy and introspection, Jeff prefers a more muscular approach, happy to blast away at his guitar when the occasion demands, but using his similarly soaring voice to ride over the crashing chords as he demonstrated on Friday night in the dark, dingy atmosphere of The Garage in Highbury.

More successful are the songs which portray a keen intelligence and willingness to experiment of which his father would have been proud: "Mojo Pin", all angles, floating vocals and unexpected key changes; the rhythmically buoyant and exuberant "Grace"; the rocker, slide guitar-led "Last Goodbye". The trouble with both album and live performance is that these stand-out tracks come rather too early; they establish a standard of excellence which proves difficult to maintain.

While one can understand Buckley's desire to slow things right down and show off the range and rich tone of his voice, his cover versions of "Lilac Wine" and Leonard Cohen's "Hallelujah" are a wasted self-indulgence, especially when his own material is so strong. It took the Jim Morrison-like "Dream Brother" and the heavy metal "Eternal Life" to zap some energy back into the proceedings, although by this time the level of chatter among the audience was getting disturbingly loud.

What remains unequivocally true is that Buckley is a star in the making, from his self-deprecating way with his good looks (pointing out to the audience a "purple which Sony couldn't pop") and his hip put-downs to the startling ambition of his song-writing. By the end of this tour, Tim will begin to be respectfully forgotten, and Jeff will pick up a privileged mantle indeed.

Peter Aspden

Jeff Buckley's European tour ends in Paris on September 22.



Myung-Whun Chung: way to the rehearsal room was barred by the interim director, Jean-Paul Cluzel, and a posse of security

INTERNATIONAL ARTS GUIDE

CONCERTS
Philharmonie Tonight and tomorrow: Claudio Abbado conducts Berlin Philharmonic Orchestra in works by Prokofiev, Tchaikovsky and Stravinsky, with cello soloist Natalia Gutman. Tonight (Kammermusiksaal); Alfred Brendel and friends play chamber music by Mozart and Schubert. Thurs: Esa-Pekka Salonen conducts Los Angeles Philharmonic Orchestra in Elliott Carter's First Symphony and Bruckner's Third. Fri and Sat: Daniel Barenboim conducts Berlin Philharmonic Orchestra in works by Goldmark and Bruckner. Sun morning: Rafael Frühbeck de Burgos conducts Orchestra and Chorus of the Deutsche Oper in an all-Mendelssohn programme, with violin soloist Vadim Repin. Sun morning (Kammermusiksaal): Claudio Abbado conducts members of the BPO in Bach and Hindemith. Sun evening: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in Goldschmidt and Mahler. Next Mon

THEATRE
A new stage adaptation of Pushkin's Boris Godunov, directed by Gero Troike, opens on Sat at Volksbühne am Rosa Luxemburg Platz (293 3394). A musical based on the tale of Cyrano de Bergerac opens on Sun at Theater des Westens, with previews from Wed (882 2868).

■ NEW YORK

OPERA/DANCE
Philadelphia, Here I Come! At last, a new show on Broadway – and a play, no less. Milo O'Shea, Robert Sean Leonard and Pauline Flanagan star in Brian Friel's drama about the rocky relationship between father and son in rural Ireland. Directed by Joe Dowling. Final previews tomorrow and Wed, opens on Thurs (Roundabout, 1530 Broadway at 45th St, 869 8400).
● Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marisa Seldes represent three generations of women trying to sort out their pasts (Promenade, Broadway at 76th St, 239 6200).
● Blood Brothers: Willy Russell's musical about twins who separated at birth, eventually meet and fall in love with the same girl. The show

has been running on Broadway for 18 months, but the recent addition of singer Carole King has provided a little heat to the box office (Music Box, 239 West 45th St, 239 6200).
● Carousels: Nicholas Hytner's bold, beautiful National Theatre production from London launches Rodgers and Hammerstein towards the 21st century (Vivian Beaumont, Lincoln Center, 239 6200).

● Crazy for You: the musical based on Gershwin's *Girl Crazy* is now in its third year on Broadway. A highlight of this glitzy entertainment is Susan Strasberg's choreography (Shubert, 225 West 44th St, 239 6200).
● Guys and Dolls: a top-notch revival of the 1950 musical about the gangsters, gamblers and good-time girls around Times Square (Marin Beck, 302 West 45th St, 239 6200).

● Kiss of the Spider Woman: pop star and ex-Miss America Vanessa Williams has confidently assumed the starring role in the long-running Kander and Ebb musical directed by Harold Prince (Broadhurst, 235 West 44th St, 239 6200).

OPERA/DANCE
State Theatre New York City Opera's autumn season begins on Thurs with *Madama Butterfly*. Borodin's *Prince Igor*, opening on Sat, is the company's first new production of the season: Guido Ajmone Marsan conducts a cast headed by Valery Gergiev, Vladimir Grishko and Oksana Krovitska, with choreography by Damjan Wozzel of New York City Ballet. The season runs till Nov 20. Repertory in the opening month includes *Carmen*, *Tosca*, *Delibes' Lakmé* and *Die*

ARTS GUIDE
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV
(Central European Time)
MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230
MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345
WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030
SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730

CONCERTS
Samson Bychkov conducts the Orchestre de Paris in the opening concert of the new season at Salle Gaveau on Sep 14 and 15, with piano soloist Radu Lupu. The orchestra spends the rest of the month on tour in Austria (4561 0630).

FESTIVAL D'AUTOMNE
This year's festival runs from Sep 20 to Dec 30. Highlights include Peter Stein's Moscow staging of the Orestes, a Robert Lepage production, a Bob Wilson adaptation of Dostoevsky, and The Merchant of Venice directed by Peter Sellars. The dance programme is headed by Trisha Brown Dance Company, and there is a special focus on the music of Gyorgy Kurtag (Festival d'Automne à Paris, 156 rue de Rivoli, 75001 Paris. Tel 4296 1227).
DANCE

FT Reports 4015 9268

Samuel Brittan

Aim at the climate, not the weather



A book which made a lasting impression on me in my last year at high school was Peter Drucker's *The End of Economic Man*, published in 1939. Although the author had already long been resident in the US, it was in the best tradition of continental European speculative thought. His thesis (speaking from memory) was that Nazism was neither a form of capitalism nor of socialism, but a revolt against the whole utilitarian, nicely calculated "lore of less or more", in favour of more primitive collective urges.

In subsequent years Drucker has become best known as an American management guru, and, as someone who would not be allowed to manage the proverbial whelk-stall, I lost track of him. But I could not believe that he had lost his wider interests; and sure enough, his list of public works shows that he has continued to reflect on society, ideas and politics. His latest venture, published last year when he was 84, is a kind of *summum*.

Although entitled *Post-Capitalist Society* (published by Butterworth-Heinemann), it is free both of Spenglerian gloom and of the posturing of futurologists. Instead, he focuses on trends already visible. He is now sure that market values are here to stay and regards longing for an imaginary medieval past as mainly a reflection of ignorance of what the Middle Ages were really like.

The emerging society is post-capitalist in the sense that the Marxist vision of a few private owners versus an army of propertyless workers is dead. Indeed, workers own the enterprises through their pension funds. Moreover, physical capital is no longer dominant and is now subordinate to what mainstream economists call human capital and Drucker prefers to call "knowledge". Mainstream economists may say that he is unduly preoccupied with Marxism and the reaction to it, and they no longer think of variables such as

Land, Labour and Capital in upper-case letters, but of innumerable products and factors of production designated by algebraic letter. For this very reason, much of their work is cold and uninformative.

As it is based on current realities, Drucker's vision of the knowledge society cannot be entirely surprising. But the all-important details are more perceptively highlighted than elsewhere. For instance, the emerging society is individualistic - it is full of specialists who cannot be bogged down by their superiors who lack the knowledge to do so - but it is still highly dependent on organisations.

Drucker has spotted that "contracting out" is the Big Idea common to advanced corporate practice, privatisation schemes and voucher propos-

Drucker has spotted that 'contracting out' is the Big Idea in all sectors

als for schools and universities. The key is that people should concentrate on what they are trained to do and do best. When cleaning is done by directly-employed Mrs Mops, it will usually be a low-grade activity hardly worth the attention of the deputy chief executive. Contracted out to a specialist company, it becomes a principal activity in which employees can take a pride - as I have seen when staying late at the office.

On the larger question of the nation state, Drucker points out that it has lost its dominance, but it is still the only fully developed political institution. Indeed, the effect of money and information becoming transnational is that states can be of almost any size. When his native Austria was forcibly separated from the Hapsburg empire after the first world war, it was universally condemned (even by its own inhabitants) as too small to survive. Yet it has recently prospered, along with even

smaller states like Slovenia.

One of Drucker's most eloquent asides is on the futility of military aid to friendly regimes. "To the threat: if you do not give us these arms we'll get them elsewhere, the proper answer is: go ahead." In no instance has such aid stabilised a region: too often the recipients became "internal terrorists who use the military aid they receive to turn their country into a land-based pirate ship to terrorise the international community", as Saddam Hussein did.

Drucker is also always interesting on Japan, which he treats as a traditional nation-state. Like many European countries before the first world war, Japanese governments have been certainly prepared to give their local industries a helping hand, but stayed clear of social engineering or massive expenditure programmes.

In the end, the reason why I decided to write about *Post-Capitalist Society* is that, in a couple of paragraphs, he makes more sense of macroeconomic policy than most life-time specialists. "Every government promises to cure recessions. But this is pure quackery. No government has been able to deliver." Political leaders, he argues, should instead try to regain the ability to avert major depressions.

This means balancing budgets, not only in normal times but even in modest recessions, so that governments can afford to borrow to invest in the infrastructure, which is always in bad repair, when a real slump threatens. How to do so without encouraging the mega-state on which Drucker is as scathing as anyone is, of course, a problem. But he has a good point when he argues that recent Japanese attempts to encourage consumption instead sparked off a property boom from whose residue the country is still recovering.

Drucker's central economic point, however, is that governments should concentrate on influencing the climate instead of on futile attempts to change the weather - a fruitful analogy, which it is astonishing has not been used more often. The first of these new structures came into operation in April when production commenced at Shell Oil's Auger platform in the Gulf of Mexico. It lies in 2,860 feet of water, a US record and one of the deepest oil platforms in the world. A new US depth record will be set in 1996 when Shell and its

For much of this year US-registered exploration rigs have been flocking to the Gulf of Mexico to take part in what promises to be one of the most remarkable changes in the fortunes of an oil-producing area.

After nearly 45 years of production, one of the world's most extensively drilled pieces of oil and gas-bearing seabed is attracting renewed interest from oil companies - in spite of relatively low world oil prices.

The reason is that new technology has given oil companies the ability to explore large, geologically-complex areas, which were previously not thought to contain oil, or which defied conventional exploration methods.

Industry observers say the new reserves in the Gulf of Mexico that can now be tapped could be large enough to slow the steady decline in overall US domestic production.

The new techniques could also extend the productive life of other mature areas, including the UK and Norway's reserves in the North Sea.

The resurgence of interest in the Gulf of Mexico results from two innovations. One is the growing technical ability to operate oil production platforms in deep water. The other is the extensive use of a new seismic technique which, combined with advances in computing power, is pinpointing oil and gas reserves where previously they could not be seen.

The first of these innovations is the most visually dramatic. Until recently, most of the world's offshore oil platforms sat above a lattice work of steel, firmly fixed to the ocean floor. But the volume of steel needed to fix a deep-water platform to the seabed would make them uneconomic.

To overcome this problem,

oil companies working in the Gulf of Mexico are using the first of a new generation of floating structures known as "tension leg platforms".

These are held in place by 12 steel piles, each more than half a mile long, that run from the floating hull to the ocean floor.

The design eliminates most unwanted vertical movement while allowing the structures to move with the waves.

The first of these new structures came into operation in April when production commenced at Shell Oil's Auger platform in the Gulf of Mexico.

It lies in 2,860 feet of water, a

US record and one of the deepest oil platforms in the world.

A new US depth record will be set in 1996 when Shell and its

Truly, deeply and profitably

Oil companies are successfully tapping previously inaccessible reservoirs, says Robert Corzine

Mars platform

To stand with the world's tallest building, the Sears Tower in Chicago

Photo: AP

1,200 feet above the seabed to extract oil from the Mars field

Photo: AP

1,450 feet

Photo: AP

1,600 feet

Photo: AP

1,700 feet

Photo: AP

1,800 feet

Photo: AP

1,900 feet

Photo: AP

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FINANCIAL TIMES

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Monday September 5 1994

The chance for a Euro-debate

Last week's proposals from France and Germany for building a "hard core" of states at the centre of Europe launch an essential debate on the future of the European Union. They mark an end to the uneasy truce over the pace and scope of integration that had prevailed since ratification of the Maastricht treaty.

The suggestions from Mr Edouard Balladur, the French prime minister, and Germany's governing Christian Democrats address the question at the heart of the EU's intergovernmental conference in 1992: how can the Union remain an integrated structure while embracing an ever-increasing number of member states?

The challenge is to build a Union that will be more numerous in its membership, more effective in its decision-making, more open in its relations with the rest of the world, more competitive in its economic structures, and more capable of winning loyalty from its citizens.

These are goals to which not just France and Germany but Britain too must pledge support. Since an expanded EU will be more diverse, it will have to be flexible enough to embrace varying patterns of integration. Unpalatable though it may be for some countries, Europe must accept the inevitability of a multi-speed future - without in the process allowing its decision-making machinery to become hopelessly cumbersome.

The desire to open the EU to the east is a top priority for several member states including Germany and Britain, and rightly so. Reinforcing parliamentary democracy and market capitalism in central and eastern Europe is vital to the entire continent's stability. But unless EU governments find the right formula for enlargement, the process could well aggravate the existing strains in the Union. Widening and deepening - enlargement and integration - will not prove easily compatible.

Huge strains

For a start, enlargement will impose huge strains on the EU budget, both in agriculture and in relation to the structural funds. The German document says a fresh round of reforms in the Common Agricultural Policy will be needed to enable the central and eastern European states to join the Union around the year 2000. This is a welcome shift in thinking, since, up to now, Bonn has shrank from publicly accepting the need for such painful adjustments. The message needs to be brought home with brutal clarity, not only in France but also in the Mediterranean states that remain.

Outsiders in Whitehall

The UK government is rightly proud of its record in bringing business executives and other outsiders into top jobs in Whitehall. The newcomers have brought fresh insights to the business of government and helped shake up civil service management. They have also contributed to improvements in the efficiency and effectiveness of public services. But the debate over the wisdom of bringing outsiders into top Whitehall jobs has been rekindled by events at two high-profile agencies.

On Friday, Ms Ros Hepplewhite resigned as chief executive of the Child Support Agency amid continuing criticism of the agency's role in pursuing absent fathers to pay maintenance for their children. Ms Hepplewhite was previously director of Mind, the mental health charity, and had spent most of her working life as a health service manager. During its first year of operation, the agency failed to hit almost all its performance targets - in some cases by a wide margin. Ms Hepplewhite also seemed to lack the political skills needed to deal with critics, particularly on appearances before parliamentary select committees. She has been replaced by a career civil servant who is regarded as a safe pair of hands.

Fears stirred

Mr Derek Lewis, chief executive of the Prison Service agency, also found himself in the news last week, over the transfer of four convicted terrorists from Britain to prisons in Northern Ireland. Mr Lewis, former chief executive of Granada, the leisure group, was accused of insensitivity and incompetence in going ahead with the moves within days of the IRA ceasefire. The transfers stirred fears among unionists of secret concessions to the IRA in return for the ceasefire. The prime minister was said to be "livid" and demanded a speedy inquiry.

major net beneficiaries from agricultural and structural funds.

Still more potential for discord lies in the German admission that Italy, Britain and Spain are unlikely to be in the group that first accomplishes economic and monetary union. This assertion, although controversial, is little more than a statement of the obvious in monetary affairs, as well as in immigration and justice matters and foreign and defence policy.

different EU groupings are already co-operating with varying degrees of intensity, as Mr John Major pointed out three months ago in espousing a "multi-speed, multi-track Europe".

Hard core

However, the existence of a "hard core" for the third stage of EMU does not inevitably mean the same group constituting the core for all other forms of co-operation. And it does not mean that countries outside EMU should not play a leading part in other fields. Italy, Spain and indeed Britain are strongly committed to development of a common foreign and security policy. Other constellations would be keener, say, on a joint immigration policy.

The key to making such "variable geometry" work is twofold. First, co-operation between groups of states should be inclusive and open to extension, rather than exclusive. Second, to avoid undermining the existing level of integration, it is important that members and future members of the EU agree on certain minimum essential requirements.

Above all, economic liberalisation through the single market, must remain the central component of efforts to improve the Union's productive capacity and its citizens' prosperity. Enforcement of the rules of the single market, and its extension to areas like energy and telecommunications, are essential goals from which there can be no opt-outs.

By launching debate on these issues now, the French and German leaderships have taken a calculated risk. Their prescriptions will certainly offend public opinion - not only in existing "peripheral" member states but also quite possibly in the Nordic countries which face more or less finely-balanced referendums on membership in the autumn.

But the truth is that all member states, present and future, have some extremely difficult questions to answer if they are to make the expanding Union work. It is vital that these issues are aired thoroughly and publicly over the next two years. Only then can the Union's tasks of widening and deepening be successfully reconciled.

It seems cruel to propose that the principle of "mutual ownership", where ordinary customers can own the organisation, should go. The term suggests a degree of cosiness in an otherwise cut-throat world where individuals have to deal with large, faceless financial institutions.

Take building societies, the mutual organisations which dominate the UK mortgage market. My savings help to fund your mortgage. My mortgage is funded by other people's savings. By becoming borrowers - or opening investment accounts - we become part-owners of the organisation and, so, are entitled to good treatment. Or take mutual life insurance companies, which account for a significant share of the sector. As policyholders and part-owners, we do not have to hand out a separate portion of profits to shareholders.

The reality, however, is somewhat different. If customers are treated well by a society or life company, it is generally because of fierce competition in retail financial services for new customers, and the obscure accounting practices of life companies, discourage members from questioning board decisions, even if they do vote.

Mutual organisations have come

The Farnborough air show opens today with all the glitz that an international aerospace bazaar can muster. Centrepiece of the show will be the four-nation, £23bn Eurofighter 2000, with a stand which includes a simulator demonstrating the thrills combat pilots can expect. Unfortunately for the assembled buyers, sellers, observers and enthusiasts, the real Eurofighter will not fly. Preparing an aircraft to perform at Farnborough would take too much time out of a development schedule already two years adrift.

Another of the problems which have dogged the project will surface tomorrow when Mr Volker Rühe, the German defence minister, gives evidence to a parliamentary defence committee in Bonn. Up for discussion is a report from the German national audit office which heavily criticises the cost of Eurofighter, and suggests buying Russian MiG-29 fighters instead.

These are just two examples of the turbulent ride the Eurofighter is likely to get in the next few months as several of the conflicts surrounding Europe's largest industrial project reignite. Those taking part are the UK (primarily British Aerospace and GEC), Germany (DASA), Italy (Alenia) and Spain (Casa).

The German report on Eurofighter's costs, widely dismissed as inaccurate, is bound to produce rhetoric from the project's opponents who object that the Eurofighter is over-engineered and over-priced. While a change of government in Germany is not expected, the run-up to next month's federal elections has created some uncertainty and could conceivably produce a new administration which is not as committed to the project as Chancellor Helmut Kohl's Christian Democrats.

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The opposition Social Democrats are opposed in principle, though the party is split with one faction supporting the project because it will secure a large number of engineering jobs. An alliance government of the Greens and the SPD, while unlikely, might pull Germany out of the production phase of the aircraft.

Then there is the thorny issue of how many aircraft each country is going to buy. That number, to be decided next year, determines the amount of work each country gets in the Eurofighter manufacturing run. Germany has suggested that it may reduce its order from 250 to 140. Britain, meanwhile, is thinking of increasing its order from 250 to more than 300 Eurofighters in order to replace some of its Tornado strike aircraft. With disparity arising between the British and German orders, arguments are likely to become more intense over which way should go where.

Assuming, as most observers do, that Germany remains with the

Eurofighter hits bad weather

Bernard Gray examines the conflicts surrounding Europe's biggest industrial project



COURTESY OF BAE SYSTEMS

Eurofighter, strong political and industrial turf wars will be fought over the £23bn of production work. Resentment of what some German opponents call "the English aeroplane" is likely to be exacerbated if the change in size of both countries' orders mean that Britain's manufacturers take work from Germany.

Of the problems, the cost overruns reflected in the German auditors' report have attracted the most publicity. One UK expert estimates Britain's share of development costs has now overshot by £1bn since 1988. The total development bill is likely to be around £10bn, up from the £6.5bn estimate when the project first started.

In part, that reflects the uncertainty inherent in such leading-edge technology. Many of the elements needed for Eurofighter had to be developed from scratch and their cost could only be guesstimated.

That money has probably gone for good, but some of the errors are steadily being corrected. More of

the development risks will be carried by the manufacturers rather than defence ministries and work is being put on to a fixed-price footing. Confused management structures are being rationalised.

Nevertheless, the main reason for collaboration is to spread the one-off development costs among several partners. But as the programme is analysed it is becoming less likely as the project becomes less defined. Nor would a German exit from the programme ground the Eurofighter. Indeed, in some ways a German exit would suit the other partners, since Germany may, in any case, be obliged to pay its share of development costs, and the other countries would then be able to put the aircraft into production first.

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the development risks will be carried by the manufacturers rather than defence ministries and work is being put on to a fixed-price footing. Confused management structures are being rationalised.

The cost arguments, however, embarrassing, are unlikely to kill the project unless another serious hiccup occurs, and that is getting less likely as the project becomes less defined. Nor would a German exit from the programme ground the Eurofighter. Indeed, in some ways a German exit would suit the other partners, since Germany may, in any case, be obliged to pay its share of development costs, and the other countries would then be able to put the aircraft into production first.

The companies probably now have a firm enough grip on the project that provided they tender sensible prices the Eurofighter's future is secure," said one aerospace expert, "and those governments meaning about prices could do a lot to help cut costs themselves if they weren't so nationalistic about workshares."

Alison Smith on institutions that have outgrown their ownership structure

Mutual destruction



Things which never would be missed

UK's largest building society, has 5.5m members. But fewer than 150,000 took part, either in person or by proxy, in decisions at this year's annual general meeting. Similarly, at Standard Life, the UK's largest mutual life insurer with more than 2.2m policyholders who are members, only 53 attended its annual general meeting in April.

In response to this, the mutuals

would argue that their managers' strategies are held to account in other ways: they must attract new customers and satisfy credit ratings. Even the media are not afraid to criticise.

Their argument, however, misses two points. First, none of these checks necessarily replicates the interests of those who own the business. Second, public limited companies are subject to similar disciplines - and attract more attention and provide more information because their share prices are quoted on the stock exchange.

The mutuals' argument fails apart completely. However, when they try to defend the protection they have against hostile takeovers, under UK legislation, neither building society nor mutual life company boards are obliged to consult their members about takeover offers they oppose.

While the position of shareholders in PLCs is not a financial equivalent of the golden age of Athenian democracy, the model does offer features lacking in mutuals. First, the

concentration of votes held by powerful shareholders increases pressure on the board to take account of the interests of the owners, particularly in areas such as efficiency and cost-effectiveness.

Second, PLC status individualises to decide whether to retain or sell their stake in the organisation. Those who disagree with a PLC's strategy can simply sell and cease to be owners. They do not have to change their life insurance or mortgage in order to do so.

Later this month, the government is due to publish a consultation paper on the future of building societies, which will include suggestions on how to make them more accountable to members.

Generally, members are not seeking greater accountability - most would be happy if their savings or mortgage organisation were answerable to experts at big institutions. Their primary relationship is as customers, not owners.

The Treasury should widen discussion by proposing the conversion of mutual financial organisations to PLCs, except, perhaps, for the smallest. Making members of mutuals effective owners is a lost cause.

OBSERVER



"If it wasn't for the world population summit we might never have met"

successor. But if this was going to happen Payne should have had the nod long before now.

One intriguing rumour is that if the Americans drop their support for Johnstone, the French would back the US choice for the Nato secretary-general's job.

Indeed, Douglas Hurd's name is even being mentioned although it is hard to believe that John Major could afford to lose his foreign secretary at the moment.

The delay is starting to be embarrassing. It is normal for a new OECD secretary-general to be chosen several months before the handover and with the annual IMF meeting little more than a month away it is far from clear who will be holding the OECD torch.

Don Johnstone, former head of Canada's liberal party, is still the frontrunner and the fact that last week Canada finally appointed a new High Commissioner in London ends speculation that the job was being held open for him in case he didn't get the OECD job.

However, an informal poll of OECD ambassadors suggests that Johnstone's lead is narrowing despite being supported by the US.

Payne is running a close second with the UK's Lord Lawson and Germany's Lorenz Schommer trailing a long way behind.

Payne, like his predecessor Enrico

Van Lennep, could stay on for another term because OECD members cannot agree on a

successor. But if this was going to happen Payne should have had the nod long before now.

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Don Johnstone, former head of Canada's liberal party, is still the frontrunner and the fact that last week Canada finally appointed a new High Commissioner in London ends speculation that the job was being held open for him in case he didn't get the OECD job.

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Don Johnstone



FINANCIAL TIMES

Monday September 5 1994



CDU exploits talk of ex-communist links

German socialists focus election attack on Kohl

By Christopher Parkes
in Frankfurt

Germany's Social Democratic party opposition leaders launched a direct assault yesterday on the central pillar of the ruling coalition's election campaign - Chancellor Helmut Kohl.

Mr Rudolf Schäping, the SPD leader, and Mr Helmut Schmidt, the party's elder statesman, denounced Mr Kohl as the chancellor of missed opportunities and a destroyer of jobs.

Mr Schäping characterised him as an insecure autocrat who listened neither to the electorate nor to his own party. As a result, there was nothing behind Mr Kohl but "a giant black hole", he told an SPD campaign gathering.

"You can see the insecurity in his eyes," he said. Mr Kohl's Christian Democratic Union was "burnt out" and he was trying in vain to conceal the fact.

In the four years since unification he had frittered away the opportunities for economic, social

and cultural unity in Germany. Mr Schäping added.

Mr Schmidt, who was displaced as chancellor by Mr Kohl in 1982, blamed him directly for the "unconsidered actions" that had led to the loss of almost half the jobs in the former East Germany.

The SPD, which currently lags behind the CDU and its Bavarian sister party, the Christian Social Union, in the opinion polls, last week started its campaign to undermine Mr Kohl's personal standing with the announcement of a three-man electioneering vanguard.

The tactic of persuading voters to weigh the alleged failings of one man - Mr Kohl is still seen as an unsatisfactory chancellor by half the population - against the leadership strength of the SPD emerged clearly yesterday in Mr Schäping's unusually vigorous and confident presentation.

He brushed aside charges, central to the CDU's opening attack, that the SPD was prepared to govern in an unwritten alliance with the party of Social Democ-

racy (PDS) and so allow the former East German communists a say in running the country.

However, comments at the weekend by Mr Jens Reich, one of Mr Schäping's advisers on eastern Germany, to the effect that he could imagine a minority coalition of SPD and Greens ruling with alternating support from the CDU and the PDS, seem to assure further exploitation of the issue by Mr Kohl and his allies.

With promises of economic and social justice and warnings that the electorate should not be intimidated by the "German Berlusconi" among television and newspaper proprietors supporting Mr Kohl, Mr Schäping's speech concluded the rituals preceding the campaign proper leading to the election, on October 16.

All the main parties have now set up their stalls. As the so-called "hot phase" of the campaign gets under way, personal attacks and a sharp focus on almost exclusively internal issues seem certain to dominate the early stages.

Brazilian finance minister quits over broadcast

By Angus Foster in São Paulo

Mr Rubens Ricupero, Brazil's finance minister, resigned yesterday after confessing in a private conversation mistakenly broadcast by satellite television that, when it comes to inflation indices: "I don't have any scruples. What is good, we use - what is bad, we hide."

His resignation comes at an awkward time for Brazil's two-month-old new currency, the Real, and for Mr Fernando Henrique Cardoso, the government's candidate in next month's presidential elections.

Mr Ricupero was talking privately to a journalist from TV Globo, Brazil's main broadcaster, in between taping interviews. However, about 10 minutes of the conversation was transmitted live and received by homes with satellite dishes throughout Brazil.

During the conversation, Mr Ricupero suggested that the success of the Real and his personal popularity were winning votes for Mr Cardoso and taking support from his main rival, Mr Luiz Inácio Lula da Silva of the Workers' party (PT). "The greatest vote-getter today for [Mr Cardoso] is me," he said.

In a prepared statement yesterday, Mr Ricupero said he was the victim of "an electronic failure" and that he was exhausted at the time of the conversation.

"This is not how I normally behave," he said. "But the Real plan is more important and that is why I handed in my resignation."

Last week, the PT complained about government support for Mr Cardoso which, although not surprising in Brazil, is technically illegal. To comply with Brazilian law, Mr Cardoso resigned as finance minister in April to run for president. But he is still closely linked with the new currency.

Mr Ricupero said during the interview that television stations such as Globo were using favourable comments about the Real to support Mr Cardoso's campaign, instead of giving him more open support.

Among other revealing comments, he said he was preparing widespread tariff reductions on imports.

Mr Ricupero's resignation, although extremely embarrassing for the government, will probably not threaten the Real. While currency markets are expected to open nervously today, the team of economists who designed the new currency and other anti-inflation measures remains in place.

The incident has unsettled Mr Cardoso's election campaign. Although he led Mr da Silva by 45 per cent to 23 per cent in the latest opinion polls, Mr Cardoso wants to win the presidency in the first round on October 3.

Major demands guarantees of lasting ceasefire from IRA

By James Blitz in London

Mr John Major, the British prime minister, yesterday insisted he needed a "copper-bottomed" guarantee from the IRA that its ceasefire was permanent before its political wing Sinn Féin could join talks on the future of Northern Ireland.

Mr Major emphasised the government's cautious approach to the ceasefire declared last week by announcing that Mr Gerry Adams, the Sinn Féin leader, would continue to be barred from visiting Britain.

The prime minister, speaking on BBC television, said the Sinn Féin leader would remain subject to a three-year exclusion order barring him from visiting the UK mainland, and that he did not expect this to be revoked "in the next few months".

Mr Major's caution was in sharp contrast to that of his Irish counterpart Mr Albert Reynolds, who is expected to meet Mr Adams this week to discuss Sinn

Féin's participation in the Dublin-based Forum for Peace and Reconciliation, which would bring the Irish nationalist movement into talks with political parties in the Republic.

Mr Reynolds said last week that the Irish government accepted Sinn Féin's statement as a clear signal that "the war was over".

Mr Dick Spring, the Irish foreign minister, will today meet Sir Patrick Mayhew, the Northern Ireland secretary to try to resolve the differences between the government's judgments of how to respond to the ceasefire.

An Irish foreign ministry spokesman said yesterday: "We understand the caution of the British government, but we hope that it is going to be cleared up shortly and that the meeting hopefully will contribute to that."

Sir Patrick said Irish nationalists had not yet made it clear that the violence had been permanently ended. He said: "It would be quite enough if we

could hear them say, for example, 'this is over for good'."

Unionist politicians in Northern Ireland yesterday maintained their pressure on London to respond cautiously to the IRA's declaration.

Mr Chris McGimpsey, the honorary secretary of the Ulster Unionist Party said a cessation of IRA military operations was simply a logistical statement, whereas a permanent end to violence was a political statement.

Mr Peter Robinson, the deputy leader of the Democratic Unionist Party said the terms of the IRA ceasefire provided "a get-out clause to renew the violence if they do not get concessions they are looking for from the British government".

At the weekend the DUP sent out invitations to other Unionist parties and organisations in the province to create a new forum as a counterweight to the one being set up by Mr Reynolds.

Gaullists

Continued from Page 1

make his candidacy formal as soon as possible.

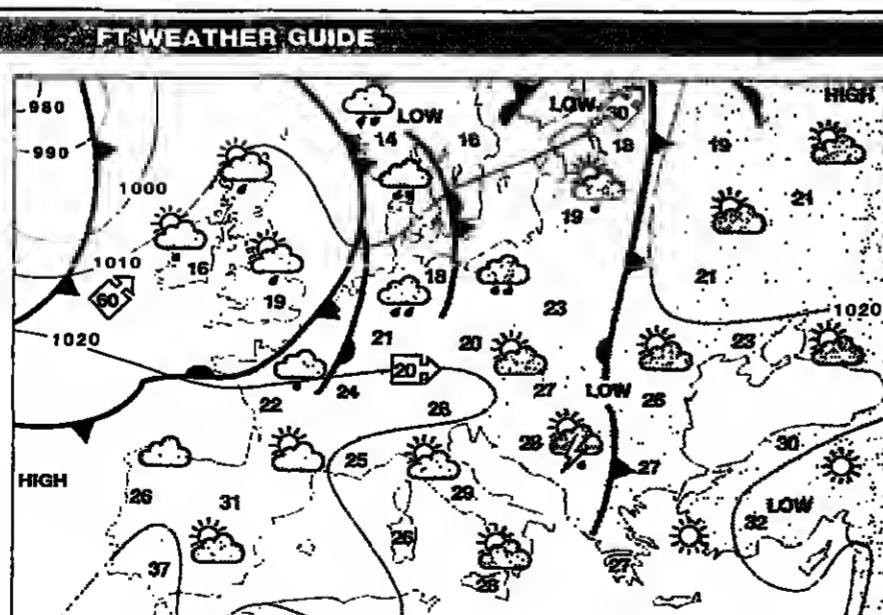
Mr Chirac is said not to want to do so before January, knowing that Mr Balladur will make no official move before then. On the other hand, Mr Chirac clearly wants to use the autumn to let Mr Balladur know there will be a fight with his party leader.

Tory alarm at EU reform

Continued from Page 1

debate over Europe's constitutional future that may prove as divisive at the wrangling over the Maastricht Treaty. The Italian and Spanish governments last week attacked the proposals, which many believe are the opening positions in the argument leading to the EU intergovernmental conference in 1996.

British officials made clear that the government is unhappy with some aspects of the proposals. The French and German reports call for a single core of five states. The UK has argued that there should be inner cores tailored to particular areas of policy in which the UK would be in the core group on defence and single market legislation, but not on social chapter discussions.



Europe today

A deep low pressure system, just south-west of Iceland, will bring an unsettled westerly air flow to much of northern and western Europe. An active frontal zone will cause a lot of cloud and rain over the Low Countries, northern Germany, Denmark and southern parts of Sweden and Norway. Further south, the influence of a ridge of high pressure from the Atlantic towards southern France will bring settled conditions. Central Spain, Italy and southern Greece will be sunny and warm. Central Greece and the Balkans will have isolated thunderstorms. North-west Russia will have plenty of sun under a large area of high pressure.

Five-day forecast

The Icelandic low will move very slowly towards the south-east to a position north-west of Scotland. The circulation around the low will push frontal systems into western Europe causing changeable conditions. It will become rather windy, especially around the British Isles. High pressure over southern Europe will provide mostly settled conditions. A disturbance over northern Africa will promote thunderstorms over Morocco during the next couple of days.

TODAY'S TEMPERATURES

Maximum	Beijing	sun	31	Caracas	thund	32	Faro	fair	29	Madrid	sun	33	Rangoon	rain	30	
Abu Dhabi	sun	39	Belgrade	sun	27	Casablanca	fair	26	Geneva	fair	25	Mars	fair	29	Rotterdam	sun
Acre	shower	30	Berlin	rain	19	Chicago	shower	23	Gibraltar	sun	26	Manchester	fair	15	Rome	thund
Algiers	thund	32	Bermuda	shower	33	Cologne	fair	20	Glasgow	shower	18	Manila	thund	31	S. Fraco	fair
Amsterdam	cloudy	29	Bogota	cloudy	15	Dakar	sun	30	Hamburg	rain	17	Melbourne	drizz	16	Seoul	fair
Antarctica	sun	20	Bordeaux	cloudy	10	Dallas	thund	26	Helsinki	shower	15	Mexico City	thund	17	Singapore	drizz
Atlanta	fair	30	Brussels	shower	19	Delhi	cloudy	36	Hong Kong	thund	31	Montreal	fair	18	Sydney	fair
B. Aires	sun	27	Budapest	sun	27	Dubai	sun	43	Istanbul	sun	28	Montreal	fair	19	Taipei	fair
B. ham	fair	17	C. hagen	rain	14	Dublin	shower	18	Jakarta	fair	31	Moscow	cloudy	18	Tanger	cloudy
Bangkok	thund	33	Cairo	sun	34	Dubrovnik	fair	27	Jersey	fair	18	Munich	fair	22	Tel Aviv	fair
Barcelona	shower	27	Capo Town	fair	20	Edinburgh	fair	16	Kiev	drizz	31	Nairobi	fair	23	Tokyo	fair

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FINANCIAL TIMES

COMPANIES & MARKETS

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Monday September 5 1994

MARKETS THIS WEEK

JOHN PLENDER: GLOBAL INVESTOR
As analysts speculate over the outcome of Wednesday's chat between the UK chancellor and the Governor of the Bank of England it is worth casting an eye over the recent behaviour of sterling futures. In effect the market has been anticipating an increase in short term rates of more than a full percentage point by December. Page 20

STEPHANIE FLANDERS: ECONOMICS NOTEBOOK
UK employment trends over the past 20 years have favoured women, but an article published today argues that economists' research has gone the other way. The author claims that in describing the decline of full-time work for men, and the accompanying growth of the female labour force, researchers may be encouraging a backlash against women. Page 20

BONDS:
The impact of higher European economic growth on inflation and interest rates will be crucial to the performance of European government bond markets this autumn. Page 22

EQUITIES:
In Wall Street, data revealing much weaker jobs growth than expected, should bring a more positive tone to the market when investors return to work tomorrow, while the UK stock market has turned highly volatile as the summer holidays draw to a close. Page 23

EMERGING MARKETS:
"If making money is a sin... welcome to hell," reads a sign in Bombay proclaiming the virtues of stock market investment. Page 21

CURRENCIES:
The trade dispute between the US and Japan has been a key factor in the dollar's weakness this year but high-level trade talks this week between US and Japanese officials could provide it with fresh direction. Page 21

COMMODITIES:
Cocoa producers and consumers will on Thursday try again to agree rules covering a production management deal that was implemented in February. Page 20

INTERNATIONAL COMPANIES:
First Financial Management, an Atlanta-based information services company, has offered \$800m in cash to acquire Western Union Financial Services, the big US money-transfer business. Page 19

UK COMPANIES:
Celsis International, the UK biotechnology company, has ended six months of management uncertainty by appointing a new chief executive. Page 18

STATISTICS
Base lending rates 23 London recent issues 23
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Patrick Harverson finds potential buyers eyeing once-lumbering US TV networks

Clambering for rides on the dinosaurs

A few years ago the three national US broadcast television networks — ABC, CBS and NBC — seemed like lumbering dinosaurs facing a slow decline.

Under pressure from nimble, more innovative competitors such as cable TV companies, independent programme-makers and newcomers such as Fox Television, the networks' share of the national television audience was falling — from 98 per cent in the 1970s to about 60 per cent by the start of the 1990s — and their advertising revenues and profits were sliding.

Yet today the dinosaurs have roared back to life and powerful entertainment companies such as Walt Disney, Turner Broadcasting, Time Warner, Paramount and Tele-Communications (TCI), the country's largest cable television operator, now appear eager to own a network.

Time Warner and Paramount are even planning to launch their own networks next year. Time Warner is also said to have been negotiating to buy NBC from General Electric; Disney is rumoured to be interested in CBS; while the chairmen of Turner and TCI have stated they would like to own one of the big three networks. Only ABC, deemed too large to swallow whole, is immune from bid speculation.

The sudden burst of interest in the networks is driven by several factors. For a start, the economics of the business are improving. The long decline in networks' share of national ratings has

been halted, advertising sales are forecast to grow and profits are recovering. There is also a growing realisation that as the number of available television channels increases, so does the value of the network.

Mr Scott Siegler, former head of Columbia Pictures Television and an ex-network executive, says: "I think that the advertising community has become aware of the fact that the more fragmented the market becomes, the more important the big three networks become. They are the only people who, on any given night, can guarantee you 60 per cent of millions of households."

Yet there is another reason why networks have become attractive to potential buyers: a changing regulatory environment.

Since 1971, financial interest-syndication regulations, or "fin-syn", have barred networks from producing much of their own programming and from participating in the lucrative syndication business — selling re-runs of shows to local stations.

The fin-syn rules, however, are set to be eliminated by November 1995, after which networks will be allowed to produce their own shows and reap the profits of syndication. "With these restrictions lifted, suddenly a network becomes a far more profitable business than it was a few years ago," says Mr Michael Theodore, media specialist at management consultants Arthur D Little.

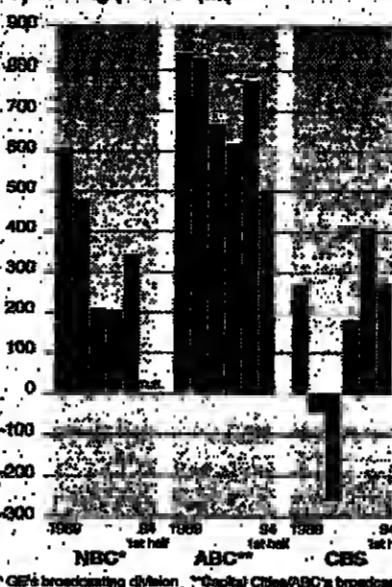
Programme makers such as

Time Warner and Disney want a

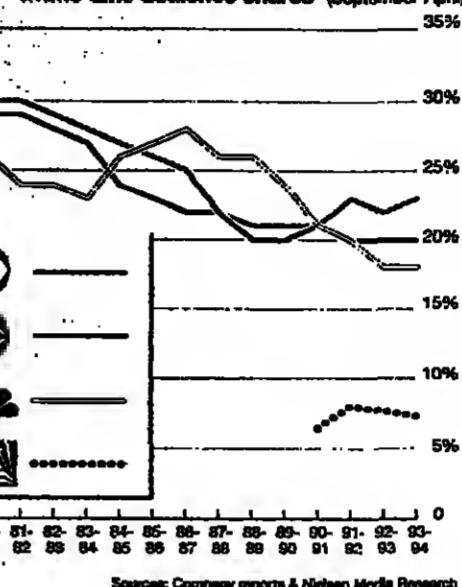
network because it would help them realise profitable synergies not previously allowed under fin-syn and protect revenues from their existing programming business.

US broadcast networks

Operating profits (\$m)



Prime time audience shares (September-April)



Source: Company reports & Nielsen Media Research

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Bermuda link for new fund at Lloyd's

By Richard Lapper in London

Indemnity Insurance Services, a London-based insurance broker, is combining forces with one of Bermuda's largest reinsurance companies in an effort to form a new Lloyd's investment company. Indemnity wants to raise some £20m (\$31m) through a stock market flotation of the new vehicle — Euclidean Investment Company — later this year.

Centre Re, now owned by Switzerland's Zurich Insurance, will underwrite an innovative long-term reinsurance contract for the company, which should allow Euclidean to accept up to £20m in premium income, twice as much as it would otherwise be able to underwrite, increasing potential profitability.

Corporate Names can accept annual premiums equal to twice the amount of their funds held at Lloyd's, according to rules introduced last year by the market.

Euclidean will spend several million pounds annually on a multi-year reinsurance policy from Centre Re. The Bermuda company will make available a letter of credit for some £23m, which it is thought Lloyd's regulators will regard as an acceptable asset for solvency purposes.

In this way Euclidean will increase its deposits with Lloyd's to some £40m. The reinsurance policy will also cushion investors against large losses.

Indemnity specialises in stop-loss insurance — a kind of personal reinsurance for Lloyd's Names, the individuals whose assets have traditionally backed the market. This activity has allowed it to obtain unusually comprehensive information about the market. By hacking no more than 86 of the most profitable syndicates and by closely monitoring future activity it hopes to be able to obtain above-average underwriting results.

Mr James Stuart, Indemnity's joint managing director, says he expects the increased gearing will allow Euclidean to make a return on capital of some 25 per cent. Net dividends are to be limited to 20 per cent of capital.

Lloyd's raised some £200m in corporate capital last year and expects to raise between £125m and £250m in extra funds for 1995. Most is expected to come from private sources. Vention, another Lloyd's agency, has linked up with Butterfield Securities of Bermuda to raise money for a corporate capital vehicle.

Savoy Group censures director over leak

By Christopher Price in London

The controversy over the control of Savoy Group took another twist yesterday when the UK luxury hotel company publicly censured one of its directors over a leak of confidential information.

Savoy was angered by weekend press reports citing a story by Mr Giles Shepard, its managing director, which had been circulated to certain directors, restating the company's need to fight off the advances of Forte, its rival and largest shareholder, and to remain independent.

A Savoy statement yesterday said: "The board of the Savoy Group is dismayed that

one non-executive director, for his own reasons, has decided to discuss confidential papers with the press. This is unsettling for employees and does nobody any good." A company source said the story had been leaked by Sir Michael Richardson, who announced on Friday his plan to retire as chairman of Smith New Court, the securities house. "There will be pressure on him to resign from Savoy" after this, said the source.

Sir Michael yesterday admitted the story emerged from his office, but denied it was a deliberate leak. "I did not show the report to anyone, it did not happen like that at all." He said the report had been

spotted on his desk by a journalist who was interviewing him about his retirement. When questioned, he had given a brief outline of its contents. "That is not a leak," he said. He described the question of his resignation as "ridiculous".

Mr Shepard said yesterday: "Nothing has been discussed by the other directors in relation to anyone resigning."

The policy document at the centre of the row, written by Mr Shepard, was circulated to Sir Michael and three other non-executive directors. It outlined Savoy's trading and corporate strategy after the company's interim results due on September 13. It also restated the company's

intention to remain independent and questioned Forte's performance and strategy.

Sir Michael and Mr Shepard admitted the row reflected tensions on the board over Savoy's future. Forte, which has fought a 13-year battle for control, holds 42 per cent of voting shares. It has discussed with other shareholders the creation of a joint venture which would pool the two groups' luxury hotels. Savoy also owns Claridge's and the Connaught in London.

Forte agreed in November 1989 not to increase its stake in Savoy for five years and to give 12 months' notice if it wanted to do so. The latter requirement remains even after the five-year standstill ends.

This week: Company news

JAPAN TELECOM

Investors worry over high price of issue

Japan's third largest telecommunications operator will be listed tomorrow on the second sections of Tokyo and Osaka stock exchanges.

The issue's high public offering price of Y4.7m (\$47,000) per share is causing some anxiety among investors. Along with the other telecom operators, the company's earnings have been squeezed by rising price competition.

Aggressive price-cutting in long distance rates has hurt JT's earnings as well as its competitors. DDI, listed last year, and Nippon Telegraph and Telephone, the former monopoly.

Although sales were up last business year, pre-tax profits fell 18 per cent from a year earlier to Y16.2bn. Earnings for the current year are projected at Y16.5bn.

DDI's listing last September attracted a large number of investors, boosting the stock price, but some analysts fear that may not be the case for JT.

Unlike DDI, the company lacks money-making subsidiaries, and Tokyo Digital Phone, its affiliated cellular phone company, only began operations earlier this year.

Stronger competition in these core businesses is likely to squeeze further JT's profit margins.

Japan Telecom was originally the telecommunications arm of Japan Railways, and JR still has a big shareholding.

The troubled Swiss telecoms equipment maker Ascom appears to be making a rapid recovery towards profitability after two years of hefty losses. A new management team will set out the group's prospects on Thursday.

Earlier this year, Ascom reported a loss of SFr335.7m (\$223.8m) for 1993 and admitted it had made a significant strategic mistake in trying to become internationally competitive in too many product areas.

Confidential Scheme update

Share price relative to the FT-SE All-Share index



CADBURY SCHWEPPES

Soft drink sales set to give sweet results

Cadbury Schweppes is expected to report on Thursday some of the best interim results among UK food manufacturers with pre-tax profits up by about 240m to 220m (\$310m). Soft drinks will show the biggest improvement at home and abroad while confectionery will be patchy. The results will also lay to rest fears that the aggressive own-label cola strategy by J. Sainsbury, Britain's largest supermarket chain, has hurt Coca-Cola & Schweppes Beverages, Cadbury's 51 per cent owned joint venture.

After Sainsbury launched its Classic Cola line earlier this year packaging resembling Coca-Cola's, Coke fought back with heavy promotions. In Sainsbury stores, Coke is now outselling Classic Cola in cans but not large bottles. But the cans carry a higher profit margin and Sainsbury accounts for less than 6 per cent of CCSB's sales. Overall, CCSB's operating profits should be up by about 25m to more than 25m.

In the UK, chocolate volumes are virtually static and Cadbury is trying to recoup rising cocoa costs. Sugar sweetens, via the group's Trevor Bassett brand, look more promising.

Shareholders can expect a dividend increase of at least 0.5p to 5.5p but the group may act on a hint at its AGM about weighing the dividend more in line with sales during the year. This would require a rise to more than 5p.

OTHER COMPANIES

Flat profits expected at Carnaud Metalbox

Carnaud Metalbox: The Franco-British packaging group is due on Thursday to report first-half profits which are expected to be substantially unchanged from the FF1.50m (\$36m) net profit it recorded in the first six months of 1993.

CMB has already announced that turnover rose 3.6 per cent in the first half to FF12.3m. Last month it admitted that it remained under continued pressure on prices from its customers and from significant increases in some raw material costs.

■ Total: The French oil group is due to report on Wednesday first-half profits that it has said will be broadly in line with those in the first half of 1993, when it made an operating profit of FF1.49m and net group profit of FF1.86m. Total has seen its crude prices and refining margins come under the same downward pressure as other oil companies.

COMPANIES AND FINANCE

Celsis names chief executive

By Tim Burt

Celsis International, the biotechnology company, has ended six months of management uncertainty by appointing a new chief executive to replace Mr Tony Martin, who was dismissed in April on grounds that he was "ineffective".

The Cambridge-based company, which specialises in contamination detection equipment, has recruited Mr Arthur Holden from Baxter International, the US medical supplies group, where he was global marketing vice-president in the renal division.

Mr Holden signed a two-year rolling contract on Friday, some four months after he was first approached by Celsis.

The company, however, declined to disclose the value of his package or whether his annual salary would exceed the £50,000 paid to Mr Martin.

It has yet to reach a settlement with its former chief

executive, who still holds shares worth more than £1.5m after leaving with almost two and a half years of his three-year contract to run.

Mr Mark Clements, finance director, said Mr Holden would help to build shareholder value in the company, which earlier this year announced increased pre-tax losses of £1.58m (£260,000) following a sharp rise in research and development spending from £156,000 to £384,000 in the year to March 31.

That spending - using funds from last year's £12.4m flotation and income from collaborative ventures with companies such as Wellcome and Merck - has been used to develop a range of hygiene monitoring products.

Mr Holden, who joins the company on October 10, said he was determined to exploit commercial applications of Celsis' technology.

He will be conducting a review of the overall strategy

Trevor Humphries
Arthur Holden: plans to develop commercial applications side

and will see if this side of the business can be developed more rapidly," he added.

In the latest commercial agreement, Celsis said it had signed a deal with Colgate-Palmolive to use its bioluminescence kits to

monitor personal care products such as shampoos and body lotions.

The company declined to reveal how much the deal was worth, but predicted that similar manufacturers would follow Colgate's lead.

Govett expands US operations

By Christopher Price

Govett & Company, the fund management and insurance group, has announced a significant expansion of its US operations. It has signed a distribution agreement with American Capital Marketing, a US mutual fund group, which it estimates will more than triple its US sales to \$1bn (£600m).

Mr Ian Whitehead, chief financial officer, added that the move would save Govett some \$5m a year in costs. "These are obviously welcome, but the most exciting aspect of the deal is the growth potential for our US mutual funds," he said. Govett currently manages seven such funds.

Govett will continue to act as investment manager of the funds, while American Capital will take control of distribution, which Govett says will substantially increase the number of wholesalers selling the products.

The US mutual fund market has \$2.100bn of assets under management. International funds, which have been one of the fastest growing segments, represent 8.3 per cent of the assets. American Capital currently manages more than \$1bn-worth of assets through 44 mutual funds.

Hambros to launch Asian trust

By Bethan Hutton

Hambros Bank is to launch an investment trust specialising in Asian companies with a market capitalisation of less than \$500m (£322.5m).

The Hambros Smaller Asian Companies Trust is based on the manager's belief that smaller Asian companies are under-researched, and should benefit disproportionately from fast economic growth in the region.

It will be managed by Hong Kong-based Hambros Pacific

Fund Management, which already runs the Hambros EQUUS South East Asia fund, covering a similar geographic area, and ranked 13th of 32 offshore funds in the same sector over three years.

The new trust's initial portfolio will be concentrated in the markets of Hong Kong, Malaysia, Singapore and Thailand, but the managers will also be free to invest throughout the rest of Asia, from South Korea to India.

The fund will be dollar denominated, but London-listed, and will have an initial life of about seven years. Shares will be issued at \$1, and warrants will be attached on a one-for-five basis. Capital will be raised by means of an institutional placing by NatWest Securities, with a minimum subscription of \$30,000.

A similar trust, Edinburgh New Tiger, was launched in March this year to invest in Asian smaller companies, but its shares are still trading at below the issue price after the corrections in world stock markets earlier this year.

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COMPANIES AND FINANCE

Atlanta group tops Western Union bids

By Patrick Harverson
in New York

First Financial Management, an Atlanta-based information services company, has offered \$900m in cash to acquire Western Union Financial Services, the big US money-transfer business.

First Financial has also offered to assume about \$65m of Western Union unfunded pension liabilities. This lifts the total value of the bid to above \$1bn.

The offer tops two previous bids for Western Union: \$970m offered last week by Firstman Little, the New York buy-out firm, and \$660m offered by First Data Corporation. First Data, however, has also agreed to assume the \$265m in pension liabilities.

Western Union is currently owned by New Valley, a New Jersey-based financial services

company which has been operating under bankruptcy court protection for the past year and a half. New Valley hopes eventually to sell the unit for enough to pay off its creditors.

The deadline for the auction ends on September 16, but analysts believe that it is unlikely First Financial's bid will be topped.

Founded in 1851, Western Union controls 90 per cent of the US domestic money transfer market. Last year it completed 40m transfers of funds worth more than \$7.8bn. Revenues this year are expected to top \$8.5bn.

Western Union last changed hands in 1987 in a junk bond-financed leveraged buy-out. However, the company, subsequently renamed New Valley, struggled to meet the high interest on its debt, and eventually filed for bankruptcy in March 1993.

Danish group to issue 3m shares in New York

By Hilary Barnes
in Copenhagen

ISS International Service Systems, the Danish industrial cleaning group, is to issue 3m B shares on the New York Stock Exchange this autumn.

Plans to seek a New York listing were initially announced last year, when ISS paid \$95.5m for National Cleaning Group of the US to become the largest cleaning business in North America with sales of about \$650m.

The share issue was postponed this spring when the ISS share price, which peaked at DKK276 early in the year, began to weaken. The shares took a further beating in August following the group half-year results, falling some 20 per cent to DKK177.

But Mr Poul Andreassen, chief executive, said the group's investment bankers had advised it to go ahead with the issue, which will raise about DKK500m (\$66m) at the current market price.

"The issue will strengthen our equity capital and enable us to go ahead with our strategy of expanding our core

Mr Poul Andreassen: Ready to expand core business

cleaning business, including by new acquisitions," he said.

Group equity capital at the end of June was about DKK1.47bn and assets about DKK6.15bn, an equity ratio of 23.9 per cent.

ISS is the world leader in industrial cleaning with a labour force in excess of 120,000. For the first half of 1994 sales rose 22 per cent to DKK7.24bn and pre-tax profits climbed 33 per cent to DKK193m.

Mexican airlines' chairman resigns

By Ted Berdache
in Mexico City

The chairman of Mexico's two largest airlines, Mexicana and Aeromexico, has stepped down under pressure from creditor banks seeking a \$200m injection of new capital from shareholders.

The resignation of Mr Gerardo de Prevoisin, who in February 1993 brought the two former competitors together, threatens to unravel the alliance that controls more than 70 per cent of Mexico's domestic airline market.

Both airlines are in financial trouble. Aeromexico lost \$136m in the first half of 1994, while Mexicana followed 1993 losses of \$180m with a first-half 1994 loss of \$115m. Together they have total debts of more than \$1bn.

Creditor banks gave Mr de Prevoisin until September 1 to find \$150m of fresh capital for Mexicana and about \$50m for Aeromexico. Advisers to Mr de Prevoisin say his first priority has been to find new money for Aeromexico, which has been the stronger of the two companies, both of which were privatised by the Mexican government in the 1980s.

Nevertheless, its dynamism has prompted Morgan Stanley's plan of rationalising routes and uniting workforces among the two carriers. It has yet to prove its worth. Only baggage handling and other ground services have been successfully combined.

Management has faced competition from a plethora of new, small airlines which have taken advantage of the Mexican government's open skies policy and flooded the most popular routes with cut-price flights.

Average revenue for the airlines is between 15 and 20 cents per km travelled. The company believes it needs to increase that figure to about 30 cents per km in order to break even.

Mr Jose Luis Llamas was named new chairman of Aeromexico, while Claudio Terreni will take over the post at Mexicana. Both were already board members of both airlines.

Sime Darby lifts profits by 7.5%

By Kieran Cooke
in Kuala Lumpur

Sime Darby, the Malaysian conglomerate that boasts of being southeast Asia's biggest multinational, has reported a 7.5 per cent improvement to M\$900m (US\$385m) in pre-tax profits for the year to June.

The result was below most analysts' expectations but was viewed as satisfactory for one of the region's most conservatively run and cash-rich companies.

A final dividend of 17.5 Malaysian cents was recom-

mended, compared with 16.5 Malaysian cents in the previous year. Group turnover rose to M\$8.21bn from M\$7.04bn.

Sime Darby, once largely plantation-based, has diversified into a wide range of activities including the oil and gas industry, property, motor and heavy equipment franchises and the manufacture of various rubber products.

The main money-earning base was once again Hong Kong. Pre-tax profits in Sime's division in Hong Kong, where it acts as the main automotive and heavy equipment distribu-

tor, were M\$227m compared with M\$155m last year.

Analysts say Sime benefited from buoyant demand in its major distribution in Hong Kong, particularly for European-owned cars, but its overall performance in the territory was not as impressive as in previous years.

Sime's operations in Malaysia, the Philippines and Australia reported lower profits while Singapore registered improved results. Profit from the plantations division fell by nearly M\$20m due to lower average prices for palm oil

products. Depressed rubber prices also hurt profit margins.

However, with palm oil prices now recording 10-year highs and rubber prices strengthening, it is likely that plantations will have a far better year.

Sime should also benefit from its involvement in various infrastructure projects, including its share in an independent power producer scheme in Malaysia.

"The board believes the group will have another year of record profitability in 1994-1995," it said.

Offer for Texaco Canada rejected

By Robert Gibbons in Montreal

Texaco, the big US oil group, has rejected an offer worth C\$200m (US\$145m) for its Canadian subsidiary, Texaco Canada Petroleum.

The US company says Texaco Canada is an important part of group strategy for North America. Texaco holds 78 per cent of Texaco Canada, an Alberta oil and gas producer and developer.

The bid is from Canadian 88 Energy, a small western Canada oil and gas company, which is offering C\$1.60 a share for Texaco Canada's 12m shares after Texaco itself offered to buy the minority held shares at C\$1.40 a share.

Dissident Texaco Canada shareholders had complained that Texaco's offer grossly undervalued Texaco Canada's assets. Canadian 88 insisted its bid was "very serious" and not aimed at forcing Texaco to raise its offer for the minority shares. It owns almost 10 per cent of Texaco Canada.

Malaysian group expands in Canada

By Kieran Cooke

Berjaya, one of Malaysia's fastest growing conglomerates, plans to buy a 60 per cent stake in Taiga Forest Products, a Canadian company listed on the Toronto Stock Exchange.

Berjaya is offering C\$80.8m (US\$62.5m) for the stake - or C\$12.50 a share. It described Taiga as the largest independent Canadian building products distributor specialising in the wholesale of lumber and panel products. Taiga made pre-tax profits last year of C\$8.4m on sales of C\$371m.

Berjaya, controlled by Malaysian Chinese entrepreneur Mr Vincent Tan, has interests ranging from manufacturing to food distribution and hotels and leisure centres. Recently it has been expanding into timber businesses in Malaysia and the South Pacific.

Morgan Stanley bullish on Ireland

By Antonia Sharpe

Morgan Stanley, the US investment bank, has stolen a march on its competitors with the publication of a bullish report on the Irish economy and stock market only days after the IRA announced its ceasefire.

With the exception of Luxembourg, the Irish economy is the smallest in the European Union and is only equivalent to one-thirtieth of the size of the west German economy and one-twentieth of the size of the UK's.

Nevertheless, its dynamism has prompted Morgan Stanley to nickname it the "Celtic Tiger", a variation of the label given to the fast-growing economies in south-east Asia.

It notes that Ireland has the

most rapidly-growing economy in the European Union, with Gross Domestic Product growth averaging 5 per cent over the five years to 1993.

This growth rate may be exceeded in both 1994 and 1995, the broker forecasts. "There is a large balance of payments surplus and a firm exchange rate.

Mr Richard Davidson, Morgan Stanley's European equity strategist, said that the IRA's ceasefire further improved the country's prospects because of the likely easing of border restrictions and the freer movement of goods. "There will be more investment in either part of Ireland which have positive benefits for both economies," he said.

However, like the economy, the Irish stock market is also one of the smallest in Europe with a total market capitalisation of \$17bn. Average daily volume in Dublin in July was

122m (\$17m), of which the top 10 stocks made up 88 per cent.

The low level of liquidity outside the top 10 stocks poses considerable problems for institutions wanting to deal in large amounts. "Investors still view the market as illiquid and dominated by locals but there is good profit growth and valuations are cheap," said Mr Davidson.

The Irish government's intention to sell off its remaining 15 per cent stake in Irish Life and the potential privatisations of Telecom Eireann and the Aer Lingus group should greatly improve market liquidity.

In addition, the flotation next month of the building society Irish Permanent should raise between 1230m and 1550m.

Trading in futures and options up in Sydney

The Sydney Futures Exchange said that futures and options trading rose by 51 per cent in the first eight months of 1994, compared with the same period a year ago, thanks partly to a surge in interest from overseas.

Mr Hoaking said that SPE

equity derivatives have been the fastest growing products. Interest rate contracts also saw solid growth, with volumes rising by 38 per cent for the three-year bond contract, by 45 per cent for the 90-day bank bill contract and by 48 per cent for the 10-year bond contract.

■ The Chicago Mercantile Exchange is to consolidate its two largest divisions into a single membership class. The exchange proposes payments to agricultural sector traders of \$60,000 to \$70,000 in a deal totalling \$45m.

■ Lend Lease, the Sydney-based financial services group, has announced an operating profit before tax of A\$264.7m (US\$195m) for the year to end-June, up from A\$248m in the previous 12 months. The after-tax figure increased by 12.6 per cent and fully-diluted earnings per share rose 12.3 per cent, to 10.7 cents.

The company said there were gains in all its main divisions, which comprise property, corporate services and retail financial services, including

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Photographed by Andreas Meier



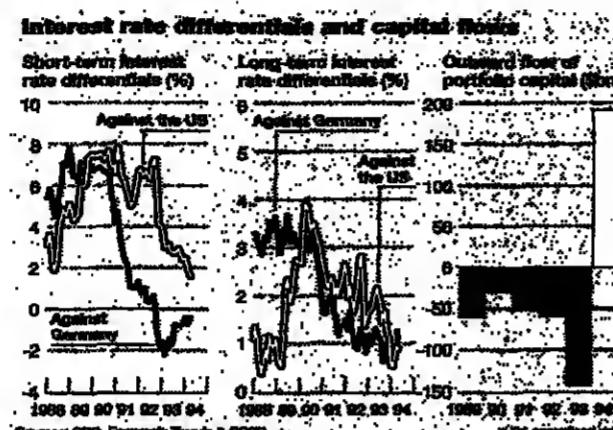
FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / John Plender

Overdoing the caution



sterling futures contract outright. My inclination is on their side of the argument. But it is still worth playing devil's advocate to see what could justify the market's pessimism.

The prize candidate for this role is a sterling crisis. The obvious scenario would probably involve market worries about high rates of growth leading to a rapid disappearance of the gap between actual and potential output, quickly followed by inflationary bottlenecks. Against a background of no early increase in base rates and a November budget which is perceived to be excessively political and over-generous, this could easily fall into the trap.

The snag with the argument is that we have already seen some pre-emptive tightening by the bond markets, which have imposed constraints on consumption via the rise in the cost of fixed-rate mortgages. This has coincided with the chancellor's tougher fiscal policy starting to make its mark.

The worry about capacity utilisation thus looks premature in relation to a December futures contract. As for the concern about Kenneth Clarke's fiscal and monetary intentions, it presupposes that the man is wholly devoid of judgment.

A more interesting case for pessimism is that advanced by Mr Brian Reading of Lombard

Streets Research. This hinges on Britain's role as global financial intermediary in a world where the pattern of capital flows looks increasingly perverse.

If life was rational, countries with ageing populations in the developed world might be expected to run current account surpluses in the form of long-term direct and portfolio outflows. But the most remarkable statistic in the accompanying table is the one that shows Britain, despite

being in substantial current account deficit, becoming the biggest net exporter of long-term portfolio capital in the G7 in 1993.

The US, too, has recently turned generous with its outflows, especially if direct outward investment of a further net \$37bn is included. Meanwhile, Germany and Italy both received huge portfolio inflows.

Part of the reason why the

English-speaking economies have been exporting capital despite running current account deficits is that their financial systems are so highly developed. Traditionally, ageing Britons are big savers. But much of their saving has been recycled to younger Britons who borrow more than their counterparts elsewhere. When the inter-generational transfer is netted out, the savings rate

proves unduly low and contributes to a large current account deficit.

Yet the deployment of the gross savings of the ageing populations of the US and Britain is conducted mainly by fund managers without regard to macro-economic considerations such as the overall level of national savings. This leads to a big financing requirement. Both countries have, in effect, ended up borrowing short and lending long on a huge scale.

This leads to an unstable situation, which is more worrying for Britain than the US where external factors are less important for the conduct of monetary policy. Given that the UK economic recovery is more advanced than continental Europe's, Britain will need to cut interest rates again before Germany. That could cut off the short-term inflows, causing sterling to crash.

Mr Reading concludes from this that the way to deal with the new external constraint on

NET CAPITAL FLOWS						
Year	1988	1989	1991	1992	1994Q1	annual rate
USA	-46	-30	9	22	-15	10
Japan	-38	4	70	-25	-63	152
Germany	-31	-4	22	36	120	-57
Britain	-34	-15	-18	-21	-53	271
France	22	36	14	34	3	-75
Italy	3	-1	-6	-13	57	38
Total	-4	-11	91	32	19	338

the rise in the number of dual-income households could be less favourable if one includes families in which no one has a job. But the chart (left) shows that this is where women have not avoided their partner's fate.

The top line of the graph confirms the steady rise in the number of working wives. The percentage of married couples of working age in which the woman is "non-employed" (either on the dole or out of the labour force altogether) has fallen from 45 per cent in 1973, to 35 per cent in 1991.

However, this disguises the fact that only the wives of working husbands have been finding jobs. The middle line charts their progress: a mere 25 per cent of them are now non-employed, compared to 42 per cent 20 years ago. This is steeper than the line above, because a growing proportion of women in the same type of household have been "sharing" non-employment with their husbands: nearly a tenth, in 1991, compared to 3 per cent in 1973.

If one combines these results for married couples with the relative labour market failure of single mothers, it is clear that the problem is not rising sexual equality, per se. In a growing number of "work-poor" homes, neither men nor women are being offered the full-time, permanent jobs which were the norm when the benefit system was created. Instead, firms are opting to employ workers on rather different terms. Accepting them can leave these families worse off, and less economically secure, than remaining on the dole.

Finding a "correct" way to describe these disturbing labour market trends ought not to distract from deciding how they might be reversed. Rather than "shoot the messenger", find ways to reform the system which produced the message.

Stephanie Flanders

"Women need the work",

Institute of Public Policy

Research

miss out those women who drop out of the labour force to work at home, when their job prospects are low. In fact, a smaller proportion of single mothers are finding work: 22 per cent were employed in 1990-2, compared to 26 per cent in 1978.

It is equally misleading to characterise married women's employment as a bid for extra pocket money. As Ms Quiney argues, these facts are implicitly drawn together into an accusation against women. Not only are women suffering less unemployment than men, but since they are already "comfortably off", female part-timers are effectively branded as "stealing jobs from needy men because of a selfish desire to buy pins".

This is not merely politically incorrect; it is factually questionable as well. For one thing, headline unemployment rates are notorious for under-stating the number of jobless women. Statistics calculated by the OECD tend to put UK female unemployment a good deal higher than the official rate.

Even the adjusted figures

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COMMODITIES

Cocoa pact talks to resume

Cocoa Producers and consumers will on Thursday begin a fresh attempt to agree rules covering a production management deal that was implemented in February.

Members of the International Cocoa Organisation (ICCO) failed to reach agreement in June, when consumers complained that their views were not adequately represented on the organisation's production committee.

The International Cocoa Agreement, which is operated pro-

duction management and consumption promotion in place of its buffer stock price stabilisation scheme, which has been moribund for some years.

This month's session, which is to continue until September 20, will comprise meetings of the full ICCO council, as well as the production, consumption and executive committees.

Some of the urgency was taken out of the revival of the cocoa pact by last autumn's price rally, with expectations of more to come as reduced production in West Africa and

other areas (a legacy of historic low prices) promised a drawdown from world stocks.

Prices have become stuck in something of a rut this summer, but remain some 35 per cent above the level of the summer of 1993.

Other events this week include a three-day Indian planters' meeting in Coonoor to assess crop prospects for tea, coffee, rubber and spices, and a four-day international oils and fats conference in Kuala Lumpur. On Wednesday Statistics Canada is due to release its grain stocks report.

Richard Mooney

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SOME OF OUR FIGURES AS OF MARCH 31, 1994

Total assets	USD 2,088 million
Net profit	USD 35 million
Paid-up capital (April 1994)	USD 119 million
Free capital	USD 52 million
International business volume	USD 1,943 million
Capital adequacy ratio	12.82 %
Per share equity accounts	N.A. %
Return on equity	8.44 %
Deposits / Total funds	53.04 %
Due to foreign banks / Total funds	20.64 %
Non-performing loans / Total loans	0.5 %



Total return to local currency investors						
Country	Week	Month	Year	1993	1992	1994Q1
Austria (17)	0.05	0.05	1.05	1.05	1.05	1.05
Belgium (27)	1.77	1.77	11.23	14.93	14.93	17.54
Denmark (26)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Finland (24)	2.67	2.67	20.82	21.95	21.95	22.07
France (87)	17.57	17.57	112.05	149.44	149.44	162.94
Germany (56)	14.54	14.54	121.30	121.30	121.30	121.30
Hong Kong (59)	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34
Ireland (28)	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
Italy (59)	83.33	83.33	83.33	95.01	95.01	105.38
Japan (469)	164.38	164.38	164.38	164.38	164.38	164.38
Malaysia (67)	505.85	505.85	505.85	505.85	505.85	505.85
Mexico (19)	-226.18	-226.18	-226.18	-226.18	-226.18	-226.18
Netherlands (27)	217.67	217.67	217.67	217.67	217.67	217.67
New Zealand (14)	11.4	11.4	73.07	73.07	73.07	73.07
Norway (23)	207.05	207.05	198.95	198.95	198.95	198.95
Singapore (44)	367.33	367.33	367.33	367.33	367.33	367.33
South Africa (59)	303.12	14.2	282.81	282.81	282.81	282.81
Spain (147)	140.47	0.5	133.26	133.26	133.26	133.26
Sweden (36)	225.00	225.00	225.00	225.00	225.00	225.00
Switzerland (47)	105.46	4.0	104.69	135.02	135.02	135.02
United Kingdom (204)	203.16	-0.8	194.07	203.12	203.12	203.12
USA (177)	192.21	1.9	194.49	195.30	195.30	195.30

FT-ACTUARIES WORLD INDICES							
COUNTRY AND REGIONAL MARKETS	Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 2 1994			THURSDAY SEPTEMBER 1 1994		DOLLAR INDEX
US	Pound	Yen	Local	DM			

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The Emerging Investor / Stefan Wagstyl in Bombay

Bulls ride roughshod over doubters

"If making money is a sin... welcome to hell," reads an advertising sign in Bombay proclaiming the virtues of stock market investment.

All over the city there are people taking the message to heart - from the crowds milling in the narrow streets around the Bombay Stock Exchange, to the foreign investment bankers who have taken up residence in the luxury hotels.

Bombay is in the midst of its biggest stock market investment boom in over two years. The Bombay Stock Exchange's index of leading shares has risen by about 35 per cent since early May to reach a new all-time high last Wednesday of 4,588.18.

The previous record of 4,546 was set in April 1982, at the peak of a rally which collapsed when it emerged that the market was being fuelled by suspected illegal share-financing operations organised by Mr Harshad Mehta, a leading stockbroker. The ensuing Rs40bn (\$12.75m) scandal cast a cloud over Bombay's financial markets that is only now beginning to lift.

The most bullish stockbrokers are certain that the index is now in sight of 5,000. The more cautious point out that the market has already risen by more than 70 per cent since its low of 2,588 in the middle of last year, and is riding for a fall. But those who think a cor-

rection is overdue are in the minority.

The bulls' case is built on a strong revival in the economy. Three years after the start of economic reform in 1991 plunged much of Indian industry into a prolonged recession, there are signs that many companies are recovering. In the year to March 1994, exports grew 22 per cent. The first few months of 1994-95 have seen a pick-up in domestic demand, particularly for consumer goods, and this should be sustained, given that the monsoon seems to have distributed ample rains.

Moreover, the bulls expect interest rates to fall by about 1 percentage point when the Reserve Bank of India sets monetary policy later this month for the October-March half-year. This would bring minimum commercial lending rates to 14 per cent, compared with a high of 19 per cent in 1991-92.

All this, say the bulls, is driving growth in corporate profits, which rose 25 per cent at the net level in 1993-94 and are forecast by stockbrokers to increase a further 40 to 50 per cent in the current year. According to the bulls, these increases justify current price/earnings multiples for leading shares, which trade at about 53 times earnings for 1993-94, and 36 times likely earnings for 1994-95.

The bears do not deny that

Ten best performing stocks					
Stock	Country	Friday 29/8/94	Week on week change	\$	%
Int. Indoray Utama	Indonesia	2.7112	0.5046	22.87	
PR Exploration & Production	Thailand	9.2781	1.0889	21.93	
Telecoms	Thailand	3.5782	0.5561	17.58	
Comercial del Plata	Argentina	3.7565	0.5383	16.62	
Bank Bangkok City Bank	Thailand	0.9538	0.1285	15.31	
SAO Sudamericana de Valores	Chile	0.7585	0.0218	13.24	
Bank (Thailand) Ltd	Thailand	0.9588	0.0218	13.01	
Kung Thai Bank	Thailand	3.0784	0.3361	12.25	
Kredit Mahanakorn	Thailand	3.3193	0.3553	12.01	
Cia De Aceras del Pacifico	Chile	6.4868	0.5804	11.58	

Source: Baring Securities

the economic outlook is better than at any time in the past three years. But they believe that in their rush to buy, investors have pushed share prices far beyond levels justified by economic logic. "Prices are simply outrageous," says Mr Pradip Shah, managing director of Crisil, a credit rating agency. "The economy is good but it's not that good."

Mr R Balakrishnan, senior vice president at DSP Financial Consultants, a securities company, argues that the rate of profit growth has been exaggerated by one-off technical changes, including the liberalisation of foreign exchange rules and in accounting regulations covering depreciation. "Underlying profit growth is moderate," he says.

He and other bears warn that shares are being driven up mainly by the flood of money entering a market which is too small to cope. Domestic investors' appetites have been whetted by the sight of foreign fund managers, who were allowed into India only in late 1992, chasing Indian stocks.

Even though the total market capitalisation of the Bombay market is now nearly \$150bn, daily turnover is quite low - below \$100m - because little stock is freely traded. The families that control most listed companies typically hold 25 to 75 per cent of the issued capital. Other long-term holders such as development banks are also infrequent sellers. Very little is left for foreign fund managers and other new investors to buy.

The difficulties in acquiring shares are accentuated by the cumbersome trading, settlement, and transfer procedures, which mean it can take six weeks for sellers to receive payment and three months for buyers to secure full ownership of their stock. Although

stockbrokers and bankers are trying to improve the process, they only expect dramatic changes after the Bombay Stock Exchange and the newly-formed National Stock Exchange launch computerised on-screen trading, and a computerised share depositary is established to handle share transfers smoothly. On-screen trading on the NSE could start this year for top stocks and on the BSE next summer, but a fully-fledged depositary is two or three years away.

These difficulties have already persuaded some foreign fund managers to slow their purchases of Indian stock or to switch to the Euroequity issues of Indian companies. After averaging \$25m a month in the first half of 1994, net foreign buying of Indian equity fell to \$85m in July and \$60m in August. That said, many investment funds dedicated to India have yet to invest, this slowdown is likely to be temporary, but it shows that fund managers are paying heed to price levels.

They are also diversifying their purchases from the large capitalisation stocks, which tend to trade on the highest multiples, to smaller issues, where price/earnings ratios are as low as 10. Mr Shah believes that this is where the best value is now to be found in the market - but it is also where the problems of acquiring stock are the greatest.

■ Hong Kong

Sun Hung Kai plans to set up a joint venture fund with Shanghai Shenyin Securities to invest in China's A share markets, now confined to domestic investors.

The size of the fund has yet to be finalised, but it is expected to range from \$50m to hundreds of millions of dollars. The plan is subject to approval from Beijing.

News round-up

3-for-1 rights issue for pay for the conversion of its grinding mills to cement-making.

The committee said the company had not planned the project properly. Another KSE committee last month blocked a 20-for-1 rights issue planned by Tri-Solar Power.

■ Lebanon

Bairat's defunct stock exchange will reopen within two months, the president of the newly-appointed stock exchange committee said in a newspaper interview.

The exchange, which operated last in 1984 at the height of Lebanon's 1975-90 civil war, would trade in shares of those companies listed on the exchange before it closed, he said. These are currently being dealt in the unofficial grey market.

■ Poland

Investors oversubscribed the public offering of the Polish treasury's 48 per cent stake in tyre maker Debica, the privatisation ministry said.

The initial results of the offer did not reveal the extent of the oversubscription, or the final issue price for the shares which were offered at a minimum 160,000 zlotys apiece.

■ Pakistan

A Karachi Stock Exchange committee has rejected an application by Mineral Grinding Mills to make a

were unenforceable at any time in the near future, and that they still had to be debated before becoming law.

■ Ivory Coast

The Ivorian state is to sell its 35 per cent stake in the cable company, Societe Ivoirienne de Cables, which is 51 per cent owned by Italy's Pirelli group.

Applications for shares are expected to be taken by local banks from next week and the company should be listed on the Abidjan Stock Exchange before the end of the year.

■ Bangladesh

Mr Shamsul Islam Khan, the Bangladesh Commerce Minister, asked parliament this week to approve a new companies act seeking to safeguard the interests of shareholders and investors.

The bill seeks to make all company information and statistics transparent, remove disparities between public and private sector companies, and relax government control on management of companies.

● Emerging markets coverage appears daily on the World Stock Markets page

CURRENCIES

US-Japan talks move to centre stage

A series of high-level trade talks this week between US and Japanese officials could provide fresh direction for the dollar.

The trade dispute between the two countries has been a key factor in the dollar's weakness this year. There are widely differing views, though, as to what progress can be expected, and hence what the likely outlook for the dollar is.

Elsewhere, sterling will be a focus of attention as markets watch the monthly monetary meeting in the UK for any signs of a decision to raise interest rates.

In general, currency market activity

is likely to be subdued by the labour day holiday in the US today, and the Jewish new year later in the week.

Mr Mickey Kantor, the US trade representative, is scheduled to hold talks with Mr Ryutaro Hashimoto, the Japanese international trade and industry minister, and Mr Yohei Kono, the foreign minister.

Mr Paul Chertoff, head of global currency research at UBS in London, argues that a breakthrough in the talks is increasingly likely. On this basis he predicts that the dollar could rise to Y107 to Y110 by the end of the year.

Economists at Swiss Bank take a different view. "We expect that the market

will become disenchanted with the persistent trade talks between the US and Japan," they say, predicting that the dollar will test new lows against the yen.

Over the next three months, however, they see the dollar rising to Y105 through central bank intervention, and dollar buying on the back of hopes that the Japanese trade and current account surprises will shrink.

Tomorrow's release of the Bank of Japan's quarterly survey of business activity should provide some firm evidence of the strength - or not - of economic recovery. Opinion in the UK is mixed about

whether any upward move in interest rates can be expected. Good inflation figures, however, coupled with indications of a slowdown in consumer spending, appear to have shifted the odds in favour of rates staying unchanged, possibly for the rest of the year.

This may cause sterling to weaken, but the dollar probably remains a more important determinant of its fate than the level of UK interest rates.

Market concerns about Italy's fiscal position have recently contributed to lira volatility. For this reason tomorrow's meeting of the Italian cabinet, to discuss the 1995 budget, will be closely watched.

Philip Gavith

Baring Securities emerging markets indices

Index	2/9/94	Week on week movement		Month on month movement	Year to date movement
		Actual	Percent	Actual	Percent
World (268)	167.50	+2.11	+1.14	+20.05	+11.97
Latin America					+19.09
Argentina (20)	117.00	+3.08	+2.71	+8.34	+1.62
Brazil (22)	248.60	+4.80	+1.90	+62.87	+16.96
Chile (12)	198.60	+1.90	+0.97	+17.75	+5.06
Mexico (26)	153.07	-6.28	-3.94	+8.96	+5.08
Peru (16)	752.77	+31.78	+4.41	+83.37	+17.68
Latin America (36)	178.07	-0.72	-0.40	+24.02	+15.59
Europe					+28.83
Greece (13)	85.17	+0.65	+0.77	-0.90	-1.05
Portugal (16)	123.02	+1.94	+1.10	+5.21	+0.92
Turkey (20)	83.04	-5.73	-6.46	+1.47	+1.81
Europe (49)	101.59	-0.30	-0.30	+2.34	+10.65
Asia					-8.49
Indonesia (22)	158.84	+6.16	+4.03	+18.75	-12.10
Korea (23)	141.71	+3.35	+2.43	+14.42	+11.33
Malaysia (23)	247.97	+10.30	+4.33	+19.81	+5.07
Pakistan (10)	110.80	-1.07	-0.96	-0.77	-0.89
Philippines (11)	900.79	-1.79	-0.58	+15.52	+5.44
Thailand (24)	275.49	+17.20	+6.68	+31.49	+12.90
Taiwan (30)	176.37	+3.52	+2.04	+14.63	+0.93
Asia (143)	229.29	+8.28	+3.75	+17.22	+8.12

All indices in \$ terms, January 1991=100. Source: Baring Securities

This announcement appears as a matter of record only

NEW ISSUE

August, 1994



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NEW YORK

Wall St likely to take a more positive line

Wall Street usually makes known its assessment of the government's monthly employment report within hours of its release. This time, market observers must wait four days to get a true reading on investor sentiment.

Analysts say Friday's limp reaction to news that non-Farm payrolls had risen by only 179,000 last month was mostly a reflection of the thin trading conditions prevailing that day, with the approach of the long Labor weekend. The data, which revealed much weaker job growth than expected, should bring a more positive tone to the market when investors return to work tomorrow.

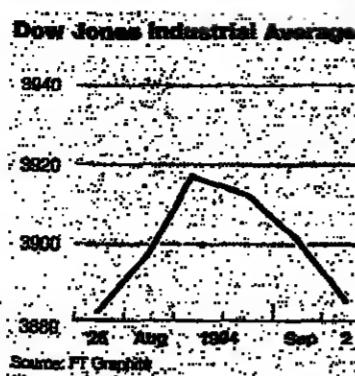
Surely, the dispirited bond market played some role in Friday's lacklustre response in equities. Fixed-income fund managers, ever wary of inflation, focused on details of the jobs report that suggested growing constraints in manufacturing capacity, which could translate into higher prices.

Economists expect evidence of such upward pressure in August producer price data due at the end of this week. Excluding the volatile food and energy sector, a rise of 0.3 per cent is forecast, after a 0.1 per cent increase in July.

Still, cautious optimism prevails in stocks. Mr John Moore, director of asset management at Value Line, the New York research firm, predicts the broad market will climb slowly and steadily.

As he points out, there is a growing belief on Wall Street that earnings, not interest rates, are gradually taking over as the controlling force in the stock market. Consequently, he says, "equity investors can afford to be forgiving right now, as long as they can assume

Frank McGuire



rates are going to level off".

The jobs data did nothing to undermine such an assumption, according to most economists. "This is at least buys [the Federal Reserve] some time," says Mr Ray Stone, managing director of Stone & McCarthy Research in Princeton, New Jersey. At the earliest, says the Fed will wait until November before lifting rates again.

In the meantime, the autumn may bring new vigour to growth stocks - especially larger capitalisation Nasdaq issues such as Microsoft and Cabletron - which have mostly languished over the past two years.

That may seem surprising in view of the broad pullback in computer stocks last week. The selling came on the heels of a profits warning issued by AST Research. An extra push down came from BellSouth Computer, which was thought to be trimming its supply orders.

However, Mr Moore attributes last week's setback to profit-taking and a fleeting bout of the jitters. Technology concerns have turned in impressive performances for the most part, he points out. "These stocks tend to have two, three or four good quarters, then they stumble. That makes everyone nervous for a day or two."

LONDON

Share prices focused on higher ground

The stock market has turned highly volatile as the summer holidays - extended perhaps by the prolonged British Rail dispute - draw to a close. Although profit-taking in the wake of the latest upsurge has been modest and underlying retail business strong, there are signs this week could see a more penetrating review of market prospects.

The interest rate outlook has hardened in Europe as the latest indications of strength in the German economy have suggested the trough of the rate cycle has been reached. In the UK, Wednesday's monthly meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, has already triggered alarm bells among market analysts.

Some believe there is already a party in the City prepared to urge that base rates should be raised now, as a pre-emptive strike against an accelerating economy and hints of inflation. It was these concerns that kept the stock market hopping from one foot to another last week.

Mr Richard Jeffrey at Charterhouse Tilney Securities points out that, while the chancellor will be politically wary of raising base rates, he has committed himself to having inflation below 2% per cent at the end of this parliament.

"If he fails, it will be seized upon... as a broken commitment," says Mr Jeffrey. Since the City still believes that interest rate policy has been the key to keeping domestic inflation subinflated, it is not surprising that market antennae are on the alert.

However, there is still the question of whether the market really deserves to be as much as 30 per cent below its early-1987 peak relative rating.

"In the short term, continuing doubts about trading prospects are likely to remain a drag on share prices," he said. "However, we are more optimistic about the earnings outlook for 1995 and it should be borne in mind that 1994 profits will probably end up not too far short of the record levels of 1993, which were widely considered as quite exceptional."

There was still some scope for further easing of loan provisioning requirements as the economic upturn continued, he said, which would have the effect of encouraging a renewed growth of business volumes.

Mr Crossley also argued that in a longer-term perspective, the growth in the relative importance of trading income, because of the link with interest rates, has actually reduced the overall volatility of earnings.

In the meantime, Ascom, the troubled telecommunications equipment maker, is due to outline its group's new strategy and prospects at a press conference on its first-half results on Thursday.

Results for the first quarter gave rise to some encouragement when the company announced that it

Terry Byland

FT-SE-A All-Share Index

whether a modest and controlled rise in base rates would stop a market now focused on the recovery in company profits and dividends. It seems clear that the equity market wants to go higher.

Recent support has come from wholesale upgradings in bank and insurance companies, and also the 12 dividend reviews among electricity companies prompted by the favourable pricing review. NatWest Securities points out that, with the impetus from gilt yields now missing, maintained corporate earnings momentum is even more important for equities.

Kleinwort Benson's Edmund Warner, agreeing that the interim reporting season has started in good form and is "unlikely to shake prospects for this year", warns that 1995 expectations appear overblown.

He says the strong list of profits upgrades in August, a reversal of the July trend, does not change his view that earnings will grow by only 10 per cent next year, which would be a disappointment for a consensus forecast of 13.6 per cent, according to a review by Legal & General, but these medium term views will be swept aside if the conviction that some large takeover moves are in the offing prove true.

After decades of being overlooked by international investors, Israel is preparing to emerge from obscurity with a series of international equity offerings.

Progress towards peace in the region and the easing of the Arab boycott have greatly reduced the political risks which have been associated with the country for so long. At the same time, the favourable economic outlook has made Israeli stocks an attractive alternative to other fast-growing economies in southern Europe, Asia and Latin America.

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At present only 2 per cent of the Israeli stock market is estimated to be owned by foreigners, a significant proportion of which is made up of BZW Investment Management's Israel Fund.

In the past, the Israeli government has not sought international capital when it sold off stakes in state-owned companies because of the strong demand from domestic investors.

However, the poor performance of the stock market this year and a diversion of savings

into buoyant property markets have encouraged it to pursue a more global strategy.

Last week, the Government Companies Authority, the official body charged with selling state-owned companies, said it had chosen Wertheim Schroder, part of the UK merchant bank and fund management group Schroders, to act as financial adviser to the sale of shares in Israel Chemicals (ICL), the country's leading chemical and fertiliser

company.

The government plans to sell 32 per cent of ICL, which is currently valued at around \$850m, through an international public offering and 15 per cent to a single or a group of private investors.

Bankers believe that the offering, which would leave the government with a 28 per cent stake, will take place during the first quarter of next year.

In the meantime, Morgan Stanley has been selected to advise on the international offering of shares in Bezek, the telecommunications company.

The government wishes to sell 25 per cent of the company, which would lower its stake to 51 per cent. The sale, which is likely to go ahead by May next year, could raise between \$500m and \$700m.

Observers say that at present, Bezek is less prepared for

International offerings

Israel takes a global approach to privatisation

privatisation than ICL, largely due to the uncertainty about the government's intention to break Bezek's monopoly on international phone calls.

Another candidate for privatisation is El Al, the state-owned airline. The government, which intends to sell 51 per cent of the company through the Tel Aviv stock exchange and through an international offering, has appointed BZW to conduct a valuation of the airline.

Three problems obstruct El Al's privatisation. First, the government wants to keep a golden stake to protect state interests and the exact scope of this has yet to be defined.

Second, it must also determine what to do about the airline's \$55m annual security costs, 80 per cent of which are currently met by the government.

Third, the government must decide whether to remove legislation which bars El Al from Sabbath flights. The ban on flying between dusk on Friday and dusk on Saturday cost the company an estimated \$30m to \$40m in profit last year. Officials say these issues should be resolved in time for El Al to be floated by mid-1995.

Julian Ozanne and Antonia Sharpe

OTHER MARKETS

FRANKFURT

Another firm week is in store. UBS said that while polls are suggesting that a re-election of the CDU/CSU-FDP coalition might have helped sentiment, its key reason for being positive was the likely surprises in earnings due to higher volumes and prices.

KHD is expected to report interim results early in the week. UBS forecast a loss of DM100m after a DM88.3m deficit last time.

However, he said the full-year result should be somewhere around break-even as the industrial plant division is likely to book most of its profits in the second half.

ZURICH

After the excitement generated last week by UBS's news of improved trading income in July and August, and the better than expected six-month figures from Roche, the health products group, on Friday, the Swiss market starts the week in confident mood.

All three of the big Swiss banks were out of favour in the aftermath of their first-half results, although there have been signs of renewed interest in recent sessions.

Mr Bryan Crossley at Hoare Govett said that while it may not be realistic to expect the Swiss banks to recover the relative standing in the market that they enjoyed back in the

mid-1980s, it is much more debatable whether they really deserve to be as much as 30 per cent below their early-1987 peak relative rating.

"In the short term, continuing doubts about trading prospects are likely to remain a drag on share prices," he said.

However, we are more optimistic about the earnings outlook for 1995 and it should be borne in mind that 1994 profits will probably end up not too far short of the record levels of 1993, which were widely considered as quite exceptional."

There was still some scope for further easing of loan provisioning requirements as the economic upturn

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Results for the first quarter gave rise to some encouragement when the company announced that it

had avoided an operating loss in the first quarter and that it continued to expect to break even in 1994 and expected to return to profit in 1995.

AMSTERDAM

The busy first-half reporting season continues this week. The market was in good form in the early part of last week before news of an unexpected downturn at Bols Wesselen, the drinks group, on Wednesday, led prices lower.

That news put a check on a rise in shares in Heineken, which reports its own first-half results on Friday. Elsewhere in the brewing sector, Grolsch unveils interim figures on Wednesday.

Ahold is due to report tomorrow and Fords Ames first-half figures come on Thursday.

HONG KONG

Stock sales by corporate investors realising profits to boost earnings ahead of the September book closing are expected to peak this week, writes Emilio Tarazona.

While public pension and insurance funds are likely to support prices around 20,000, large capital stocks and banks will face selling pressure.

Investors are expected to focus on releases by think-tanks on corporate earnings for the current business year to next March

Holdings, the property and infrastructure company, posts its final results today.

Investors will start to focus on the Jardine companies whose interim results kick off next week. It is expected that an announcement will be made then on the fate of the remaining companies in the group following the delisting of parent Jardine Matheson and Jardine Strategic Holdings.

Many analysts expect directors will announce that Dairy Farm, Hong Kong Land, Mandarin Oriental and Jardine International Motor will follow suit, leaving a substantial hole in the 33-company Hang Seng index.

Compiled by Michael Morgan

This announcement appears as a matter of record only

ALCATEL

has restructured the balance sheet of its subsidiary, Alcatel Teletas, in Turkey

Citibank has provided its advisory services in this transaction

Istanbul, July 1994

CITIBANK

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Coupon nr: 2

Amount: FRF 1835,11 for the denomination of FRF 100 000

FRF 1835,10 for the denomination of FRF 1 000 000

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SGA SOCIETE GENERALE ACCEPTANCE N.V. FRF 500,000,000 REVERSE FLOATING RATE NOTES DUE JUNE 2003

For the period September 01, 1994 to December 01, 1994 the new rate has been fixed at 7,503775 % P.A.

Next payment date: December 01, 1994

Coupon nr: 2

Amount: FRF 2151,08 for the denomination of FRF 100 000

FRF 2151,08 for the denomination of FRF 1 000 000

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SGA SOCIETE GENERALE ACCEPTANCE N.V. FRF 800,000,000 REVERSE FLOATING RATE NOTES DUE DECEMBER 2003

For the period September 01, 1994 to December 01, 1994 the new rate has been fixed at 7,503775 % P.A.

Next payment date: December 01, 1994

Coupon nr: 2

Amount: FRF 1414,23 for the denomination of FRF 100 000

FRF 1414,23 for the denomination of FRF 1 000 000

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WORLD STOCK MARKETS

EUROPE												NORTH AMERICA												ASIA					
EUROPE			NORTH AMERICA			ASIA			EUROPE			NORTH AMERICA			ASIA			EUROPE			NORTH AMERICA			ASIA					
+/-	High	Low	Ytd	P/E	+/-	High	Low	Ytd	P/E	+/-	High	Low	Ytd	P/E	+/-	High	Low	Ytd	P/E	+/-	High	Low	Ytd	P/E	+/-	High	Low	Ytd	P/E
Autos	2,180	-1	2,000 1,750 2,000	2,000	Autos	620	-1	700 500 1,7	500	Autos	9,600	-1	15,100 9,000 5,5	5,5	Autos	928	-1	971 793 1,5	1,5	Autos	1,000	-1	1,000 800 1,5	1,5	Autos	3,610	-1	3,610 3,500 1,5	1,5
Bankers	1,950	-1	1,370 1,370 1,370	1,370	Bankers	600	-1	600 600 2,5	2,5	Bankers	11,000	-1	11,000 9,000 4,5	4,5	Bankers	187	-1	191 142 1,5	1,5	Bankers	7,910	-1	8,000 7,400 1,2	1,2	Bankers	2,50	-1	2,500 2,500 1,5	1,5
CEC	3,200	-1	3,200 3,200 3,200	3,200	CEC	1,200	-1	1,100 1,000 1,5	1,5	CEC	4,570	-1	4,570 1,500 1,5	1,5	CEC	1,200	-1	1,200 1,000 1,5	1,5	CEC	3,540	-1	3,540 3,500 1,5	1,5					
EVN	1,490	-1	1,113 1,169 1,169	1,169	EVN	1,200	-1	1,200 1,000 1,5	1,5	EVN	27,000	-1	30,300 24,400 1,1	1,1	EVN	1,227	-1	1,237 1,000 1,5	1,5	EVN	7,910	-1	8,000 7,400 1,2	1,2	EVN	1,200	-1	1,200 1,100 1,5	1,5
Enron	1,440	-1	1,374 1,374 1,374	1,374	Enron	1,200	-1	1,200 1,000 1,5	1,5	Enron	1,000	-1	1,000 1,000 1,5	1,5	Enron	1,200	-1	1,200 1,000 1,5	1,5	Enron	7,910	-1	8,000 7,400 1,2	1,2	Enron	1,200	-1	1,200 1,100 1,5	1,5
Portug	450	-1	1,056 1,056 1,056	1,056	Portug	1,200	-1	1,200 1,000 1,5	1,5	Portug	200,000	-1	210,000 180,000 1,5	1,5	Portug	1,200	-1	1,200 1,000 1,5	1,5	Portug	7,910	-1	8,000 7,400 1,2	1,2	Portug	1,200	-1	1,200 1,100 1,5	1,5
SAF	1,174	-1	1,160 1,160 1,160	1,160	SAF	1,200	-1	1,200 1,000 1,5	1,5	SAF	21,440	-1	24,400 21,200 1,5	1,5	SAF	1,200	-1	1,200 1,000 1,5	1,5	SAF	7,910	-1	8,000 7,400 1,2	1,2	SAF	1,200	-1	1,200 1,100 1,5	1,5
Swed	1,174	-1	1,160 1,160 1,160	1,160	Swed	1,200	-1	1,200 1,000 1,5	1,5	Swed	21,440	-1	24,400 21,200 1,5	1,5	Swed	1,200	-1	1,200 1,000 1,5	1,5	Swed	7,910	-1	8,000 7,400 1,2	1,2	Swed	1,200	-1	1,200 1,100 1,5	1,5
Belgium	3,065	-1	3,065 3,065 3,065	3,065	Belgium	1,200	-1	1,200 1,000 1,5	1,5	Belgium	12,150	-1	15,150 15,150 1,5	1,5	Belgium	1,200	-1	1,200 1,000 1,5	1,5	Belgium	7,910	-1	8,000 7,400 1,2	1,2	Belgium	1,200	-1	1,200 1,100 1,5	1,5
NETHERLANDS (Sep 2 / Frs)	1,200	-1	1,200 1,200 1,200	1,200	NETHERLANDS (Sep 2 / Frs)	1,200	-1	1,200 1,000 1,5	1,5	NETHERLANDS (Sep 2 / Frs)	1,200	-1	1,200 1,000 1,5	1,5	NETHERLANDS (Sep 2 / Frs)	1,200	-1	1,200 1,000 1,5	1,5	NETHERLANDS (Sep 2 / Frs)	1,200	-1	1,200 1,000 1,5	1,5					
Portugal	1,174	-1	1,160 1,160 1,160	1,160	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,100 1,5	1,5					
Spain	1,174	-1	1,160 1,160 1,160	1,160	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,100 1,5	1,5					
Switzerland	1,174	-1	1,160 1,160 1,160	1,160	Switzerland	1,200	-1	1,200 1,000 1,5	1,5	Switzerland	1,200	-1	1,200 1,000 1,5	1,5	Switzerland	1,200	-1	1,200 1,000 1,5	1,5	Switzerland	1,200	-1	1,200 1,100 1,5	1,5					
UK	1,174	-1	1,160 1,160 1,160	1,160	UK	1,200	-1	1,200 1,000 1,5	1,5	UK	1,200	-1	1,200 1,000 1,5	1,5	UK	1,200	-1	1,200 1,000 1,5	1,5	UK	1,200	-1	1,200 1,100 1,5	1,5					
Denmark	1,174	-1	1,160 1,160 1,160	1,160	Denmark	1,200	-1	1,200 1,000 1,5	1,5	Denmark	1,200	-1	1,200 1,000 1,5	1,5	Denmark	1,200	-1	1,200 1,000 1,5	1,5	Denmark	1,200	-1	1,200 1,100 1,5	1,5					
Finland	1,174	-1	1,160 1,160 1,160	1,160	Finland	1,200	-1	1,200 1,000 1,5	1,5	Finland	1,200	-1	1,200 1,000 1,5	1,5	Finland	1,200	-1	1,200 1,000 1,5	1,5	Finland	1,200	-1	1,200 1,100 1,5	1,5					
Iceland	1,174	-1	1,160 1,160 1,160	1,160	Iceland	1,200	-1	1,200 1,000 1,5	1,5	Iceland	1,200	-1	1,200 1,000 1,5	1,5	Iceland	1,200	-1	1,200 1,000 1,5	1,5	Iceland	1,200	-1	1,200 1,100 1,5	1,5					
Ireland	1,174	-1	1,160 1,160 1,160	1,160	Ireland	1,200	-1	1,200 1,000 1,5	1,5	Ireland	1,200	-1	1,200 1,000 1,5	1,5	Ireland	1,200	-1	1,200 1,000 1,5	1,5	Ireland	1,200	-1	1,200 1,100 1,5	1,5					
Norway	1,174	-1	1,160 1,160 1,160	1,160	Norway	1,200	-1	1,200 1,000 1,5	1,5	Norway	1,200	-1	1,200 1,000 1,5	1,5	Norway	1,200	-1	1,200 1,000 1,5	1,5	Norway	1,200	-1	1,200 1,100 1,5	1,5					
Portugal	1,174	-1	1,160 1,160 1,160	1,160	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,000 1,5	1,5	Portugal	1,200	-1	1,200 1,100 1,5	1,5					
Spain	1,174	-1	1,160 1,160 1,160	1,160	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,000 1,5	1,5	Spain	1,200	-1	1,200 1,100 1,5	1,5					
Sweden	1,174	-1	1,160 1,160 1,160	1,160	Sweden	1,200	-1	1,200 1,000 1,5	1,5	Sweden	1,200	-1	1,200 1,000 1,5	1,5	Sweden	1,200	-1	1,200 1,000 1,5	1,5	Sweden	1,200	-1	1,200 1,100 1,5	1,5					
Switzerland	1,174	-1	1,160 1,160 1,160	1,160	Switzerland	1,200	-1	1,200 1,000 1,5	1,5	Switzerland	1,200	-1	1,2																

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FT GUIDE TO THE WEEK

5

MONDAY

Population conference

More than 15,000 delegates and representatives of non-governmental organisations gathered in Cairo for the United Nations' International Conference on Population and Development.

The weeks before the conference have been dominated by a row between the Vatican, some of its Catholic allies and Islamic conservatives on one hand and the majority of the other 160 states on the other over the wording of the proposed final text. Sudan, Saudi Arabia and Lebanon are boycotting the meeting. Religious critics have accused the text of endorsing homosexuality, abortion and adolescent sex.

The 128th annual meeting of Britain's Trade Union Congress, which opens in Blackpool today, is expected to present a more than usually unified front behind the modernising policies of Mr John Monks, general secretary. The week-long meeting will, however, be overshadowed by the continuing strike by railway signal workers.

Japanese prime minister Tomiichi Murayama meets Paul Keating, his Australian counterpart, who is on a two-day visit to Japan. Keating and Thai premier Chuan Leekpai, who is also in Tokyo this week, are expected to raise trade issues in the talks.

Banks which bailed out WPP in a \$271.6m (£175m) debt for equity swap two years ago are today expected to make more than £100m profit through a placing of the 26.5 per cent stake in the international advertising agency. The placing is being organised by a consortium comprising Bankers Trust International, JP Morgan Securities and SG Warburg Securities.

Berlin The first European Union foreign ministers meeting with the South Africa Development Community (SADC) states opens today. Finland, Norway, Austria and Sweden, which will join the EU next year, are also participating. The main aim of the conference is to increase political contacts between the EU and SADC.

The British Association for the Advancement of Science annual festival gets under way in Loughborough. This year's theme is Science in The World Around Us (to Sept 9).

The Booker Prize shortlist is announced in London. The prestigious literary award, which has 130 novels competing for the £20,000 prize, will be presented on October 11.

Farnborough Air Show, the biennial showcase for the world aerospace industry, is expecting around 220,000 visitors. This year's event includes an aerobatic world cup with 24 pilots from 15 nations (to Sept 11).

Surveys: Reinsurance, Mobile Communications.

Holidays: Canada, US (Labor Day), Israel (Eve of Rosh Hashanah), Luxembourg (local holiday).

6

TUESDAY

Slovakian sell-off

The government of prime minister Mr Jozef Moravcik (left) launches a mass privatisation programme in Slovakia involving state companies worth up to Sk250bn (£5.2bn). About a quarter of the total is to be sold through a voucher privatisation system, the remainder via tenders and direct sales. It is one of the biggest mass sell-off programmes of any post-Communist country outside the former Yugoslavia.

William Perry, US defence secretary, takes his second trip to Russia this year for talks with his counterpart, Pavel Grachev. Tomorrow he goes to Totskoye for the first joint peacekeeping exercise between American and Russian troops.

The Bank of Japan releases its "Tankan" quarterly survey of business conditions, which should shed some light on the current state of the country's economy.

Germany's unemployment figures for August are due to be announced. Recent trends have pointed towards a gradual fall in the number of unemployed. The figures will be watched closely as Germany prepares for federal elections on October 16.

The Tokyo District Court delivers its ruling in the trial of executives at Kajima – one of Japan's leading construction company's – accused of bribing Toru Ishii, the former mayor of the northern town of Sendai, to win construction contracts.

Japan Telecom is listed on the second sections of the Tokyo and Osaka stock exchanges. The issue's high public offering price of Y4.7m (£30.616) per share is causing some investor anxiety.

Cricket: The Holder's Hill cricket team, captained by Desmond Haynes, will become the first overseas village side to play at Lord's when they meet an MCC side captained by David Gower. Holder's Hill, a tiny community in St James, Barbados, has nine men who have played for the West Indies.

Rugby in Paris: The Barbarians are playing their French counterparts in Paris.

The match is to commemorate the fiftieth anniversary of the Normandy landings and the liberation of Paris.

Holidays: Israel (Rosh Hashanah).

7

WEDNESDAY

EU on plutonium security

The interior and justice ministers meet in Berlin to discuss a common response to trafficking in potentially weapons-grade plutonium from Russia. Ministers from neighbouring central European countries are to join the meeting tomorrow. The current German presidency of the EU also wants a formula on "burden-sharing" on refugees from the former Yugoslavia.

Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, face a policy dilemma in today's monthly monetary meeting. Interest rates have started to rise in Italy, Sweden and France, and Britain is further ahead in the economic cycle than most continental countries. Yet official inflation figures continue to come in below expectations, making it hard to sell a base rate rise to the public. Analysts expect no rise until after November's meeting.

Ryuichiro Hashimoto, Japan's minister of international trade and industry, meets US trade representative Mickey Kantor in Washington. Foreign minister Yohei Kono meets Mr Kantor in Los Angeles the following day.

Tokyo's two powerful ministries show signs of being at odds on how to resolve trade issues with Washington, which is threatening sanctions.

The Troubled Benetton team answer charges that they illegally interfered with their refuelling rigs, thereby causing the pit-lane fire at the German Grand Prix. Their case is being considered by the FIA, the sport's governing body.

Campaigning begins for Slovakia's general election on September 30 and October 1, its first since splitting from the Czech Republic at the end of 1992. Opinion polls show the nationalist Movement for a Democratic Slovakia, led by former prime minister Vladimír Mečiar, will emerge as the biggest party.

The World Competitiveness Report will be published by the Institute for Management Development in Lausanne, Switzerland. Japan has finished top of the poll for the past eight years.

Football: England play the US in a friendly match at Wembley Stadium, London.

Survey: Enterprise in Wales.

Holidays: Brazil (Independence Day), Israel (Rosh Hashanah).



8

THURSDAY

The Pope in Sarajevo

The Pope plans to visit Sarajevo if security can be guaranteed amid warnings from Bosnian Serb leaders. The visit is intended as a gesture of solidarity with the city's inhabitants. The Pontiff's trip to the former Yugoslavia ends at the weekend with his first visit to Zagreb in Croatia.

Germany's first-half gross domestic product data are published by the federal statistics office. Informal estimates suggest that the economy grew at an unsustainable rate of 3 per cent during the period. Some slowing is expected in the current quarter, but most economists expect more than 2 per cent for the whole year.

Jiang Zemin, China's president, visits France until Sept 12 as part of a European swing that has also taken him to Russia and Ukraine. The French part of his tour is at the invitation of President Mitterrand.

The Rio Group, which brings together presidents from 11 Latin American countries and representatives from Central America and the Caribbean each year, is to meet in Rio de Janeiro. (to Sept 10).

Troops from the US, Britain and France leave Berlin today after a presence of nearly 50 years. Chancellor Helmut Kohl will bid the troops farewell.

Christie's auctions Charlie Parker's white plastic alto saxophone in London.

9

FRIDAY

Quad meets on trade

Trade ministers from the US, Canada, Japan and the EU will meet in Los Angeles (to Sept 11). The "Quad" meeting is expected to focus on multilateral co-operation to open markets and the speedy implementation of Uruguay Round talks on lifting trade barriers.

EU finance ministers meet in Lindau near Lake Constance for two days of informal talks. The meeting, chaired by the rotating German presidency of the EU, will cover the latest macroeconomic developments in Europe and steps towards European monetary union.

The Japanese government's monthly report on the domestic outlook. It has so far avoided declaring that recovery is under way, noting only that there are bright spots.

Berlin: The Conference of German and American Business Leaders is expected to focus on German-US political and economic relations. Al Gore, US vice-president, will address the conference by satellite and Chancellor Helmut Kohl will open the event.

The design team of Swan Hunter, UK shipbuilder in receivership since May 1993, will be made redundant unless receivers Price Waterhouse have made a deal by today to sell the company. The loss of the team would end prospects of a going concern sale.

10-11

WEEKEND

US and N Korea resume talks

The US and North Korea begin negotiations in Pyongyang to implement last month's framework agreement to end the dispute over North Korea's nuclear programme. Talks aim to establish low-level diplomatic relations, and a later Berlin meeting will negotiate terms for the supply of safe light-water reactors to North Korea. In return North Korea has agreed to full nuclear inspections.

A by-election in Aichi prefecture, near Nagoya, for the Japanese upper house will be the first electoral test for the two-month-old government.

EU foreign ministers meet in Mecklenburg-Vorpommern, east Germany, for two days. Talks are expected to address the Bosnian crisis, Rwanda, relations with central and eastern Europe and progress towards the development of a common foreign and security policy.

Annual prime-time Emmy awards ceremony, television's equivalent of the Oscars, will take place in Los Angeles on Sunday.

Tennis: US Open singles finals.

Survey: Eating Out in London.

Holidays: Sunday, Pakistan (anniversary of Quaid-e-Azam's death).

Compiled by Jane Crust and Angela Bleasdale.
Fax: (+44) (0)71 373 3194.

ECONOMIC DIARY

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	July Consumer Credit	-	683m	Thurs	Austria	G2 Housing Starts (seas adj)	-	4.1%
Sept 5	UK	Aug MO*	0.3%	0.7%	Sep 8	Austria	Aug unemployment (seas adj)	9.7%	9.5%
	UK	Aug MO**	6.5%	6.5%	(cont)	Austria	Aug employment (seas adj)	-27,500	80,000
Tue	US	July home completions	-	1.83m	Fri	US	Aug PPI	+0.4%	2.5%
Sept 6	US	Aug domestic auto sales	6.7m	6.4m	Sep 9	US	Ex-Food and Energy	+0.3%	0.1%
	US	Aug domestic light truck sales	5.3m	5.2m		Canada	Aug Employment Rate	0.3%	0.5%
	US	Johnson's Redbook w/e Sept 3	-	-1.1%		Canada	Aug Unemployment Rate	10.3%	10.2%
	Japan	1994 Tankan Capital Spending	-2%	-3.7%		Canada	Jul Motor Vehicle Sales	0.3%	4.3%
	UK	Jul Manufacturing Output*	0.4%	-0.2%		Netherlands	Aug CPI**	0.4%	0.4%
	UK	Jul Manufacturing Output**	0.6%	4.4%		Netherlands	Aug CPI**	2.5%	2.7%
	UK	Jul Industrial Production*	0.4%	0.4%		Norway	Aug CPI**	0.1%	2.2%
	Canada	Jul Building Permits*	-	5.8%		Norway	Aug CPI**	1.5%	1.4%
Wed	US	Q2 Productivity Review	-	-1.2%		Switzerland	Q2 Real GDP	1.7%	1.1%
Sep 7	US	Jul Wholesale Trade	-	0.5%					
	Thurs	US Initial Claims w/e Sep 3	325,000	332,000					
	Sep 8	US State Benefits w/e Sep 27	-	2,708m					
	US	1994 Real Capital Spending	-	8.9%					
	US	Jul Consumer Credit	+\$9bn	\$10.9bn					
	US	M1 w/e Aug 29	+\$8bn	\$5.9bn					
	US	M2 w/e Aug 29	+\$8bn	\$3.8bn					
	US	M3	+\$2.5bn	\$8.3bn					
	Germany	Q2 GDP - West (quarter on quarter)	1%	0.5%					
	UK	Jun Global Visible Trade	-800m	-1,030m					
	Canada	Aug Help Wanted Index (seas adj)	97	96					
	Canada	Jun Estimates of Labour Income	-	-0.5%					

*month on month; **year on year

Statistics, courtesy MMS International.

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MOBILE COMMUNICATIONS

Monday September 5 1994

Lines that point to cellular growth

It seems set to become a mass consumer market. But could the bubble burst? Or are the forecasts too pessimistic? Andrew Adonis looks at the evidence

Mobile communications embraces everything from the simple pager to advanced radio data transfer systems. But the dynamic force in the sector is the cellular telephone, entering its second decade of commercial service in the developed world.

The issue is no longer whether the cellular phone will take off, but how fast it will build a mass consumer market, and whether it is set eventually to replace the traditional fixed wire.

The Nordic countries already boast about 10 mobile phones per 100 people. Every other household in Stockholm has some form of mobile communicator, and the number of new mobile phone connections outstrips new fixed-line connections across Scandinavia. The same will soon be true of most developed countries. The UK reached the cross-over point at the turn of the year: industry estimates for June are of about 115,000 net new cellular connections, against about 100,000 new fixed-line connections.

Between 1990 and 1993, the number of worldwide cellular phone subscribers increased to 32m, with annual growth of between 45 and 50 per cent. Projections vary wildly, but on current trends between 150m and 200m cellular subscribers is a plausible projection for 2000. To put those figures in perspective, some 650m telecommunications lines are in service today.

Unsurprisingly, the cellular industry has become a gold rush, with nothing but booms and profits apparently on the horizon, and a torrent of entrepreneurs and companies — many of them with no previous telecoms experience — muscling in to make their fortune. Witness the extraordinary sums that operators are prepared to pay for licences: the Hungarian government last year netted \$100m from the auction of two GSM licences, and far larger sums are changing hands in richer economies.

It would be rash, however, to suppose that operators will be able to continue opening their networks and then waiting for the cash to pour in. As the mass consumer market dawns, margins will fall, competition will heat up and serious misjudgments are bound to be made. There is already evidence of overheating in some markets: as operators dash for growth and cut-price handsets flood highstreets, rates of "churn" — subscribers leaving the networks — rise and fraud becomes a problem. Some operators are privately fearful that the cellular bubble will burst in developed markets, followed by a period of slower growth similar to that experienced in the early 1990s recession.

Yet just as convincing an argument can be made for supposing that current growth projections are pessimistic. For instance, they could be dramatically upset by the most intriguing departure in the industry — the development of "fixed cellular" systems for the local loop. Fixed cellular is in its early infancy, but as reliability improves and costs fall it has clear potential.

In the developed world fixed cellular offers a means for competitors to former monopoly PTTs to bypass the PTT local network without having to dig up the streets or erect pylons. It is also attractive to developing countries ambitious to promote rapid line growth and not immediately concerned about residential broadband "super-highway" services.

"For us, fixed cellular is one of the most significant things happening in the industry," says Mr Nagarajan Vital, chairman of India's telecommunications commission. India has barely eight telephone lines per 1,000 people; the government's target is to double India's number of lines — from 8m to 16m, compared with 30m in the UK today — over the next four years. Mr Vital believes fixed cellular "could have a crucial role to play," pointing to Mexico and Indonesia which have recently licensed operators.

The integration of fixed and mobile services might have a similarly far-reaching impact in the developed world. "People want to call people, not places," says Mr Torbjörn Nilsson, strategic planning director at Ericsson radio systems, the Swedish supplier. "Fixed network operators will introduce mobility to their networks by

means of personal numbers based on 'intelligent networking' solutions."

The world of mass personal numbers may be some way off, but the telecoms equipment market is already beginning to feature PABX software which enables calls to be directed to mobile numbers. Network operators are increasingly anxious to make their services complement the fixed line, even to compete with it. In the UK, one of the two new cellular operators to have launched in the past year is offering free local calls in the evenings (Mercury One-2-One), while the other (Orange) will give subscribers who want one a conventional fixed-line local number for their cellular handset, allowing them to pay the difference in incoming call tariffs.

Fixed/mobile business alignments are also taking shape. AT&T's \$12bn merger with McCaw Communications, the largest US cellular operator, was cleared last month. It is likely to be only the first of many such link-ups, and has already helped to precipitate several proposed mergers between regional cellular operators in the US.

Three forces are driving growth:

- New and competing networks. Across much of the developing world networks have only recently been opened, or are still to be launched. Much of the world thus remains virgin territory for the cellular operators. In the developed world, with its established networks, digital technology and the introduction of competition between operators are providing the cellular industry with fresh wind.

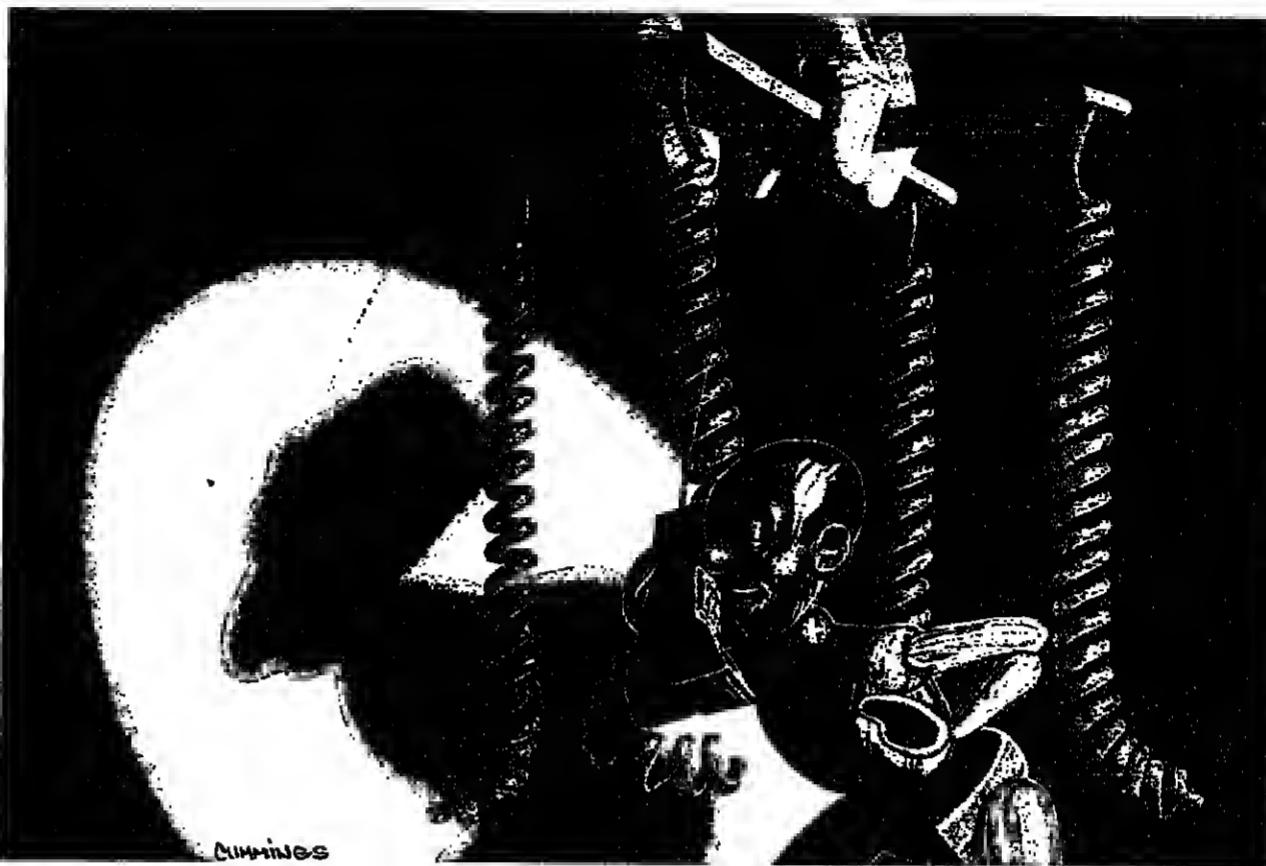
The US entrenched competition from the outset, and it will become fiercer still with the auction of licences for Personal Communications Systems next year.

Elsewhere, state-owned PTTs were licensed as monopoly cellular operators in the mid-1980s. Typically, they treated their cellular divisions as cash cows, raking in large monopoly profits from growing business demand while making little or no pretence at marketing the service.

That is all changing. Second network operators are being launched across Europe and the Asia-Pacific. Under strong pressure from the European Commission over the past two years, most EU states have licensed more than one operator to provide a digital service on the pan-European digital GSM (Global System for Mobile Communications) standard. The UK has gone further still, licensing an additional two digital operators at a higher frequency, providing so-called PCN (Personal Communications Network) services. Other major EU states are following suit with PCN.

Analysts disagree on the importance of competition to subscriber growth, but beyond Scandinavia it is hard to deny a relationship. The US, which had competition from the start, has about six subscribers per 100 people. The UK, with its four competing operators, now has about 2.7m cellular subscribers — nearly five subscribers per 100 people. Germany, which was a Deutsche Telekom monopoly until the launch of a GSM network by the Mannesmann consortium two years ago, has nearly trebled its number of subscribers over the past year but still has fewer than three subscribers per 100. Japan, which languishes at the foot of the league for large developed countries — with barely two cellular subscribers per 100 people, only this year liberalised its handset market, having previously required subscribers to rent handsets at inflated prices.

- Reducing costs. Prices of all the telecoms components of cellular networks — base stations, handsets, and interconnection charges for the use of public fixed-wire networks — are falling fast. This is a function of technological advance (base stations have shrunk from hut-size to street cabinets in a few years), computerised manufacture (it now takes a small fraction of the labour required even two years to assemble a handset), the enhanced capacity of digital systems, and lower prices for use of the fixed networks. All of these trends will continue, aided partly by technical advance, partly by greater



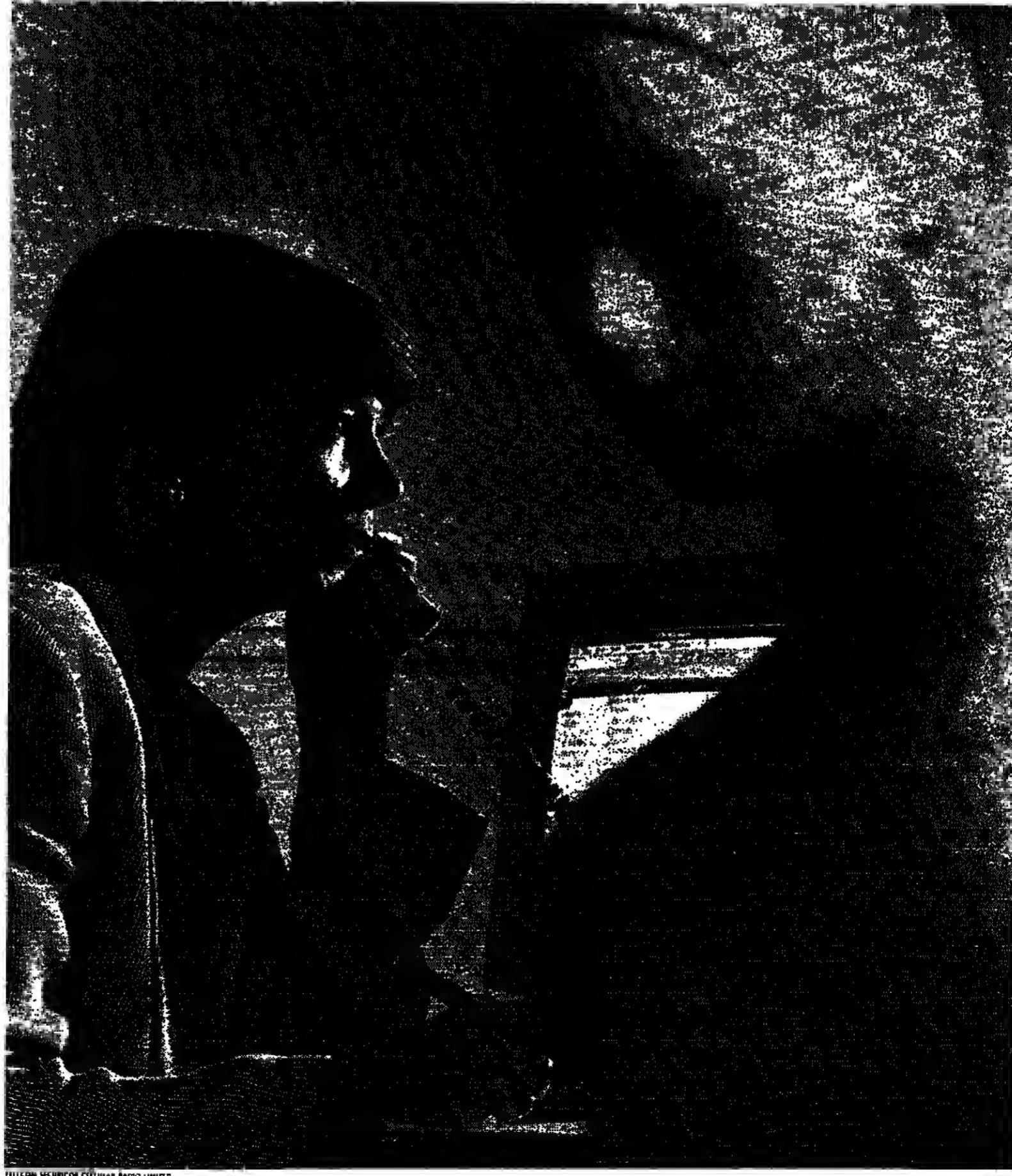
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MOBILE COMMUNICATIONS 2

Paul Taylor examines trends among business users

Cordless systems gain ground

Business users, particularly small businesses, helped fuel the growth of cellular mobile telecommunications in the early 1980s in the US and then in Europe.

A decade later although attempts are being made to broaden the market for mobile telephony, for example through the introductions of Personal Communications Networks (PCNs) like Mercury One-2-One and Hutchison's Orange network in the UK, the main focus of cellular network operators remains the business customer.

Indeed, the introduction of digital cellular networks such as the GSM networks which are being built across Europe and in many other countries around the world, and other new services like mobile data, promise to provide business users with a new set of telecommunications tools which can increase flexibility and improve productivity.

One advantage of these new digital mobile services is that they are easier to integrate with corporate fixed telecommunications and data processing equipment and will enable network operators and others to provide a wide range of value added customer services such as voice messaging and data transmission.

"With their intelligent network architecture and nationwide digital networks, the mobile operators will soon be able to offer all the services that a (fixed network) tele-

phone operator can, and more," says Mr Tim Harrabin, a principal consultant at the Cambridge-based Analysis telematics, strategy and economics consultancy, in a report published last year.

Other telecommunications strategists believe that before the end of the decade, office cordless and mobile digital technologies will be integrated in dual mode handsets capable of operating at work, while travelling and at home.

In the office itself most market research organisations predict that cordless telephony based on either of the two main digital technologies currently available, CT2 or Dect, will be gradually adopted by corporate customers over the next decade.

Frost and Sullivan, the market research firm, is predicting that sales of wireless office equipment will grow from virtually nothing last year to nearly 20 per cent of the market by the year 2000. Among the benefits claimed for cordless systems are increased efficiency, reduced outgoing call costs and savings on running costs.

Already most of the main telecommunications equipment manufacturers are either supplying or developing cordless systems which can be added onto existing PBX (Private Branch Exchange) equipment. The next step is likely to be to integrate these cordless voice systems with the emerging cordless data networks which are beginning to appear.

Outside the office the cellular telephone is already a vital business tool for a large number of mobile workers including salesmen, site engineers and others whose jobs require them to leave the fixed telecommunications services available in the office, factory or warehouse.

For some mobile workers – including those whose occupations mean they are often away from their desks or workbenches – pagers can provide a low cost and effective solution to the problem of "telephone tag". Pager networks have also proved very successful in Asian markets such as Hong Kong where they are increasingly used along-side "tele-

played on the handset. The messages are sent via the short message service centre and when they arrive at the mobile they are stored in the user's SIM (smart) card ready for retrieval.

SMS's unique features include the ability to send or receive messages at the same time as speaking or sending data, an alert feature for informing a third party when a mobile re-registers on the network, the ability to store a message and forward it to the mobile when it is switched on, and acknowledgement of successful message delivery.

Mr Martin O'Byrne, managing director of Sema's telecoms division, believes that SMS and other features like it will provide network operators with a way of differentiating service offerings.

Business users who want to send longer data files from their portable computers while on the move – as well as being able to use the network as a conventional voice link – will probably also turn to GSM. However those whose need is for frequent computer-to-computer communications will probably use one of the dedicated mobile data networks such as Ram Mobile Data in the UK.

These data networks provide high speed, reliable wireless mobile data connections which typically enable mobile workers such as parking wardens, meter readers and others to exchange data or E-mail with a central office network.

Pagers can provide an effective solution to the problem of "telephone tag"

point" public mobile cordless systems.

However, pager networks face a growing challenge from the new digital telecommunications and from GSM in particular. Vodafone, the UK cellular network operator working with Sema Group's telecom division, was the first GSM network operators successfully to test the short message service facility included in the GSM specification. This allows an alphanumeric message of up to 160 characters – twice as long as the typical maximum length paging message – to be dis-

In the meantime, the proliferation of mobile telecommunications equipment is already causing problems in some large organisations which sometimes do not even know how many mobile telephones their employees are using and have few, if any, controls over their usage.

The problem is as pronounced that Mercury Mobile Services in the UK offers a "consolidation" service which begins with a "consolidation audit" to discover the number and type of phones a customer has and to set up a database to monitor users and usage trends.

If required, MMS can then arrange for all the equipment to be transferred so that it is all managed by a single service provider and will then provide the customer with detailed management reports and monitor whether the mobile fleet is being used efficiently. Customers have included Digital, Shell, the AA and UPS.

According to Ms Diana Jones, who handles marketing for MMS, some customers are now asking Mercury Mobile Services to manage their entire mobile telecommunications operations – including marketing the services to internal users.

As Ovum, the market research group, noted in a recent study, "so far neither suppliers nor user organisations have paid much attention to how a large company as a whole can use mobile to best advantage."

However, Ovum also noted that as the drive towards a mass market for mobile communications and fierce competition force mobile operators to lower prices, developing products and services for the corporate sector will become increasingly important to mobile operators seeking to sustain margins.

"The more experienced corporate users have identified how mobile communications can improve their efficiency – they are starting to change the way they operate in order to take advantage of mobile services," said Ovum. "Changes

Most users do not see mobile communications as a cost-saving measure

include cutting down on staff and accommodation – thereby allowing extra spend on mobile communications – and closer integration of mobile with private network facilities."

One worldwide office equipment supplier interviewed for the survey "Integrating Mobility into the Corporate Network" said that by introducing voice mail for sales people they had made savings on message desk staffing.

However, Ovum noted that most users do not see the introduction of mobile communications as a cost-saving measure.

But they are aware of how mobile services can benefit their business in other ways, for example by improving the productivity of mobile staff, making an organisation more responsive to customers, improving sales effectiveness and speeding up decision making.

Given that mobile communications products and services are widely regarded by telecommunications managers as too expensive, suppliers need to find ways of stimulating market growth which do not focus primarily on cost reduction, says Ovum.

These include adding value to individual products and services such as data over GSM; moving new applications to mobile communications and educating corporate users about the benefits of using mobiles; and integrating services across technologies, adding value for users and providing cost control for the company.



Chris Neary, managing director of Mercury Paging, holds an Advisor pager which receives messages of up to 80 words long by satellite

Trevor Humphries

Andrew Adonis looks at the paging market

Europe gets message

In the US and Asia-Pacific countries public radio paging, although less high profile than mobile telephony, is nonetheless a respectable and self-confident sector. In Europe, by contrast, the pager has long been the mobile communicator that dare not speak its name, with paging operators seemingly acquiescent in a course which has condemned paging to obscurity.

That appears set to change. Radical reform is sweeping through Europe's paging industry, stimulated by the success of Sweden's state telecoms operator in marketing pagers to high street consumers. Meanwhile, paging continues to race ahead in Asia, and looks set for a further spurt in the US on the back of two-way paging and other enhanced services.

The next step in what could become a transformation of Europe's paging sector comes this month with the launch by Mercury Paging, the UK's third largest operator, of a service tailored for the consumer market.

Instead of the existing paging package – unattractive to personal consumers – of monthly rental charges for restricted coverage zones, Mercury paging customers will be able to buy their pager from high street consumer electronics retailers with automatic connection and no subscription charge. Dubbed "Minicall", Mercury will gain its revenue from the new service by charging callers premium rates for leaving messages. Each message will cost the caller about 20p, while Mercury believes it is unlikely to deter would-be callers.

"Minicall" is a numeric paging service. Numeric pagers, which display the caller's number on a one-line display, are an advance on "tone" pagers, which simply bleep and flash to alert the owner. They are one step down from alphanumeric pagers, which allow callers to leave a text message on a multi-line display.

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None of the other three UK paging operators offers a pure calling-party-pays service. BT, the largest operator with more than 400,000 subscribers, offers no alternative to monthly subscription charges related to zones: its tariff sheet setting out the options resembles a railway timetable,

although subscribers can now buy their pager. But all three – BT, Vodafone and Hutchison Paging – are examining calling-party-pays (CPP) options, and may come up with similar services.

Mercury cites three factors which have combined to make CPP at premium rates, with no subscription charges, a commercial proposition:

• The elimination of banding costs. "Minicall" is a joint promotion with Motorola, the US telecoms equipment manufacturer, which will supply pagers directly to retailers.

• A sharp fall in the cost of pagers. Numeric pagers now cost almost as little to make as simple tone pagers: the Motorola numeric pagers will retail at £79 and £99.

• The elimination of bureau costs, the most expensive part of a paging operator's overheads. Callers with touch-tone

operators are going for a niche opened up by the cost of cellular telephony in a mobile-minded society

phones leave numeric messages by tapping in their contact phone number as requested by a voice prompt. The small minority of callers without touch-tone facility can leave their number by voice after the prompt.

Mercury is also revamping its business service: subscribers will get a numeric pager for the existing price of a tone pager, with a monthly subscription charge of only £5.49 for national coverage. Mercury is keen to upgrade both new services to alphanumeric: the problem is the bureau costs, which are unavoidable until voice recognition technology produces a reliable service for turning voice messages into text. It is still some way off.

Motorola has a 28 per cent share in Mercury Paging, but insists that it had little bearing on Mercury's decision to launch "Minicall". Mr Greg Nelson, Motorola's European paging subscriber president, has spent the last year trumpeting the virtues of CPP to Europe's paging operators, and claims that at least 10 more European operators are planning to introduce a similar service in the next three to six months. "This idea is catching on fast: our role has simply been to get the operators to consider it seriously," he says.

According to industry sources, paging operators in Germany, Italy, the Netherlands and Denmark will be among the next to launch CPP services. Some will be collaborating with Motorola, some

with two or three partners, but the product will be broadly similar. All the operators are going for the market niche opened up by the continuing high cost of cellular telephony in an increasingly mobile-minded society – particularly among the young.

The CPP model is Sweden, whose state operator Telia, launched a successful service last year despite Sweden's high level (10 per cent) of cellular phone penetration. The crucial thing was to study the telephone market, not existing mobile markets, says Mr Jan Holmgren, an ex-Motorola executive who moved to Telia to build up its paging division.

Telia research showed a potential paging market of 1.9m out of Sweden's 8.5m population.

More than 100,000 pagers have been sold through retail outlets since the launch of the service. They retail for as little as SKr1,000 (£37), with no connection fee. Between 9am and 4pm the calling charge is SKr6 (about 50p) and at other times and all day at weekends, it is SKr15 – a huge price differential with mobile phones. The new regime has had almost as great an impact on the business market as on the consumer market. Telia's traditional subscriber network has grown from about 70,000 to well over 100,000 since the CPT launch.

Western Europe currently has about 3.2m paging subscribers. If CPP takes off, current projections of growth to about 5m over the next decade (from CPT Research, a London-based consultancy) could prove pessimistic. However, Europe will still lag far behind the US, which today has about 21m paging subscribers, and the Asia-Pacific region with 19m. Singapore alone has more than 600,000 paging subscribers, Hong Kong 1m, Taiwan 1.4m and Japan 7.7m. CPT projects that paging numbers in Asia will more than double over the next decade.

Two-way paging is set to be the next innovation in the US. The auction last month by the Federal Communications Commission of eight blocks of radio frequency for narrowband Personal Communications Services will allow two-way paging for the first time.

Five companies are likely to compete in the two-way market, with services such as "acknowledgement" paging, allowing the recipient of a message to choose one of a number of set return messages. Other enhanced services in the pipeline include a voice-based service allowing subscribers to play back voice messages stored on a device no larger than an existing pager – an "answering machine in your pocket."

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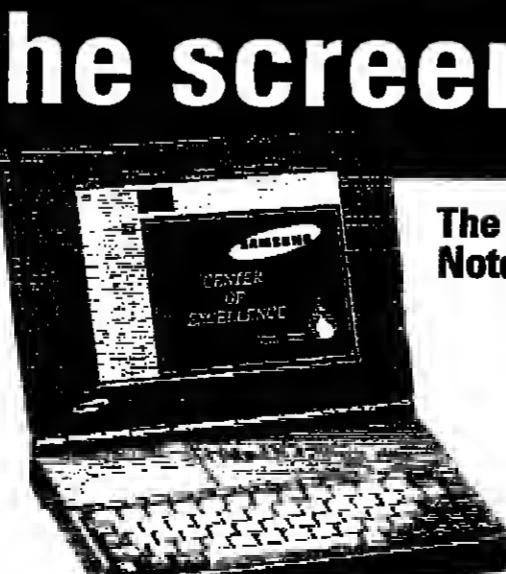
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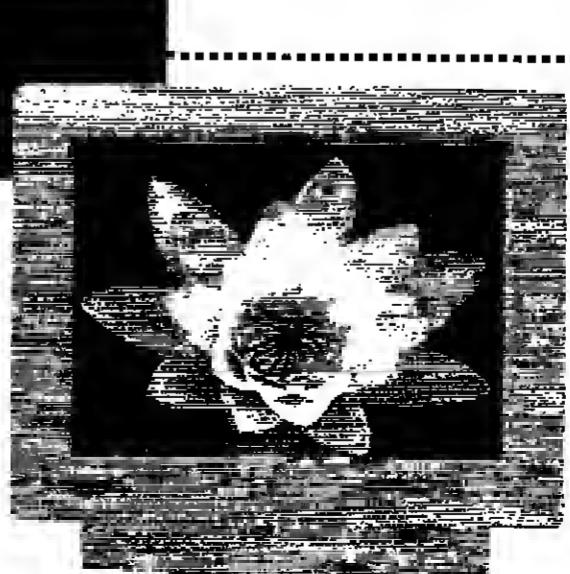
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Over the past two years the European-developed GSM (global system for mobile communications) digital cellular standard has won widespread acceptance around the world as the technology of choice for the next generation of cellular telephone networks.

Although North America led the first mobile telecommunications revolution in the early 1980s, it is Europe that has taken the lead in the move towards digital systems with the GSM standard. "The big impact of GSM is that it is a single standard," says Mr Dean Evers, an industry analyst with Dataquest's European telecommunications group, "and this means enormous economies of scale for equipment manufacturers."

The big European equipment suppliers have also benefited from disarray in the US where the telecommunications industry is still divided in its support for two different digital technologies - digital Ampe based on time division multiple access (TDMA) or the newly-developed code division multiple access (CDMA) technology.

GSM networks are in operation, under construction or planned across Europe, the Middle East, Africa and the Asia/Pacific region, having brushed aside the challenge from rival digital standards. Only in the Americas and Japan have alternative standards been adopted.

By the end of July, the number of GSM subscribers worldwide totalled more than 3m and is expected to top 4m by the year-end. These customers are in 58 countries with a combined population of more than 2m and the customer base is growing by

more than 70 per cent a year. By 1998 EMC, the Washington-based market research firm, predicts there will be 45.5m digital cellular subscribers worldwide, with GSM subscribers representing almost 60 per cent of the total.

"The GSM standard is now accepted worldwide as the basis for new digital mobile communications and networks," Mr Bruno Massiet du Biest, the current chairman of the GSM Memorandum of Understanding (MoU) group, said recently.

The first GSM networks were launched in Germany, France and Denmark in mid-1982, and similar services are now being rolled out across Europe. Last year the number of GSM subscribers in Europe jumped from 184,000 to 1.32m, according to figures from Mobile Communications, the Financial Times newsletter.

New GSM subscribers represented over 40 per cent of total western European subscriber growth and Dataquest is forecasting that the number of GSM subscribers in Europe will grow to 8.3m by the end of 1998. However, the bare figures hide substantial variations in GSM uptake in individual markets. Almost all of the growth in 1993 - and much of the growth this year - was attributable to the German market which accounted for 74 per cent of all European GSM subscriber growth in 1993.

In Germany and other markets where analogue network capacity was restricted, or had not been developed, GSM subscriber growth has been spectacular over the past two years. As a result, the two GSM networks, Deutsche Telekom Mobil's D1 network and Mannesmann Mobilfunk's D2 network, now both have more than 700,000 subscribers each.

GSM subscriber growth has been

strained, the pace of transition from analogue to digital cellular systems has been much slower. Ms Diana Jones, in charge of marketing for Mercury Mobile Services, says there is still relatively little interest in Britain where GSM handsets are still £100 more than their analogue counterparts. "Most business users do not at this stage feel the need to move over to GSM," she says.

the biggest market for GSM.

Japan and South Korea, which are developing their own digital standards, are the only two big Asian countries that have not adopted GSM. At the end of last year there were 19 licensed GSM operators in 10 countries throughout Asia, and potentially 25 operators in 17 countries.

Among them, Hong Kong has emerged as one of the most rapidly growing GSM digital cellular markets in the world. The colony's two GSM networks, Hong Kong Telecom and SmarTone, have been averaging more than 10,000 connections a month between them, and the total number of GSM subscribers is now over the 100,000 level.

Elsewhere in Asia, GSM networks are in operation in Singapore, China and Malaysia, and are planned in Indonesia, the Philippines, Cambodia, Vietnam, Taiwan and India where eight city-based GSM digital cellular licences have been awarded.

China recently placed two further contracts for GSM digital cellular systems. Nokia will supply a system for the country's capital, Beijing, while Ericsson of Sweden has won its second Chinese GSM contract for delivery of a system to Shantou in Guangdong province.

GSM is seen to have two key advantages over the rival US digital Ampe system in

Asia. First, GSM frequencies are already available, while digital Ampe frequencies may be already occupied. Second, GSM's roaming capability is giving it the edge over rival standards. However, the thorny issue of encryption poses a potential threat to GSM sales in Asia and elsewhere outside western Europe.

GSM equipment uses an encryption device based on an algorithm called A5(1). However, export rules normally prevent non-European operators from buying equipment that incorporates the A5(1) encryption system because of concerns that it could be used for military purposes. Instead, prospective GSM network operators outside Europe are being offered equipment with the newly-developed A5(2) encryption system.

Taiwan has already complained about the restrictions which are seen as a trade barrier and has accused European export authorities of undue discrimination. This is causing concern at the GSM MoU Group which is seeking to promote the adoption of GSM worldwide.

Although GSM has been an outstanding success, US and Japanese equipment manufacturers continue to lobby operators worldwide to adopt their rival digital standards. The MoU Group fears that non-European operators might feel that they are being asked to accept an inferior GSM technology and therefore turn to another system.

Much is at stake. Frost and Sullivan, the market research group, estimates that the GSM cellular equipment market will peak next year at \$1.8bn and then decline slowly as volumes and prices fall.

Paul Taylor looks at the spread of GSM networks - in Europe and elsewhere

Technology for the next generation

Last year subscribers went up from 184,000 to 1.32m. By the end of 1996 there could be 8.31m

spurred by competition. Two or more GSM network operators have been licensed in all European countries except Ireland which bowed to Commission pressure and requested bids for a second GSM operator in July. Aggressive marketing which has resulted in the elimination of the price premium on GSM equipment, has also helped. In both Germany and Denmark, another fast-growing GSM market with over 200,000 subscribers to its two GSM networks, Motorola handsets have fallen to under £100 in some promotion packages.

But in those countries such as the UK which had well-established analogue systems which were not capacity-constrained, the pace of transition from analogue to digital cellular systems has been much slower. Ms Diana Jones, in charge of marketing for Mercury Mobile Services, says there is still relatively little interest in Britain where GSM handsets are still £100 more than their analogue counterparts. "Most business users do not at this stage feel the need to move over to GSM," she says.

Market penetration is still some way off, writes Andrew Adonis

Mobile phones meet a consumer barrier

at the leading edge of the developed world's mainstream cellular industry, gives a fair picture of the market in transition.

From the figures, growth appears unbounded. It took the UK's cellular operators eight years from their launch in 1985 to attract their first 1.4m customers. The number of subscribers has almost doubled since the start of 1993, with the increase running at more than 50 per cent a year.

Recent advertising campaigns by mobile operators have been pitched at mainstream consumers, and one of the four networks - Mercury One-2-One - claims to be in direct competition with BT by offering free local mobile phone calls on its networks in the evenings and at weekends. Analysts expected that the mobile phone tide would ebb after Christmas, but apart from January, and a customary lull in the depth of the summer, demand has remained strong.

It would be misleading, however, to believe that the mass market has dawned. Visit a mobile phone shop, or talk to a

dealer, and it becomes evident that the mobile phone is not advancing into the consumer market as a whole, but rather penetrating deep into discrete sections.

The most obvious is the high-earning professionals. Much of the current boom is caused by the fact that large numbers in this group are buying phones for their personal use, or for their spouses to use.

Two other discrete growth segments are the self-employed blue-collar workers and vulnerable social groups - in both cases mostly equipped with cellular phones at the behest of employers or agencies.

A survey late last year by Joyce Wood, a visiting fellow at Sussex University, highlighted this trend, citing utilities which now equip their repair staff with mobiles and police forces providing them for women at risk.

The stereotype is being turned upside

down. And though the number of 'non-professional' users is still small, the fact that mobile phones are being seen to the hands of ordinary people is vital to creating a mass market," says Ms Wood. However, the key words are "upside down": there is still not much of a market between the better-off professionals and their families, and the blue-collar workers

who need the phone as part of the job.

The operators are aware of this. Mr Richard Goswell, managing director of Mercury One-2-One, frankly admits that PCN handset prices have still to come down by at least half - the cheapest currently retail for £199 - before the "bulk" of the consumer market can be attracted.

Still more starkly, he says that usage tariffs will have to migrate a great deal further towards BT's tariffs" before the

goal can be achieved. With call tariffs anything up to 50p a minute on low-usage schemes designed to attract the consumer, that suggests a long trek ahead.

Ironically, One-2-One makes the consumer barrier more obvious, despite its free evening local calls, because of the high handset prices. By contrast, established analogue operators Cellnet and Vodafone have experienced serious problems with "churn" - the number of subscribers leaving the network as a proportion of all subscribers - in part because of the cheap high street handset deals now available.

Mr Hans Snook, managing director of Orange, believes churn could before long turn into an "industry crisis", although like all operators be careful to exclude his own network from the crisis.

According to BIS Strategic Decisions, an information technology consultancy, churn is now running at an annual rate equal to about 30 per cent of the number of mobile subscribers. BIS estimates that about half of all churn is caused by people moving between mobile phone companies

or between different calling plans offered by the same operator. However, that still leaves half due to a combination of fraud and the inability of customers to keep up with their bills.

Ms Gail Kirby, a BIS analyst, says: "Churn is a serious problem, and it's getting more serious for the network operators as the number of subscribers rises so dramatically. The numbers churning are equal to the entire cellular population of a few years ago."

The three months to the end of June saw the churn rate rise for the fourth successive quarter. Vodafone, the largest cellular operator, was worst hit, with a disconnection rate equal to 34 per cent of its subscribers over a full year. Mr Terry Barwick, Vodafone's corporate affairs director, says: "We have had problems with fraud, and are tightening our credit-checking system to reduce it."

He said some of the fraud appeared to be organised systematically, with some dealers stealing bonuses paid for new subscribers by means of fake subscriber names and personal details. But he conceded that "part at least" of the churn was probably caused by customers unable to keep up with their bills.

As one dealer puts it, neatly summing up what could become a serious industry predicament: "Many people who buy mobile phones don't have a clue how much it actually costs to keep a mobile phone going - particularly if you use it."

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MOBILE COMMUNICATIONS 4

Andrew Adonis looks at trends and new entrants to the UK cellular market

The hothouse of competition

The UK is Europe's foremost laboratory for testing the impact of competition on telecommunications. Everyone knows that the privatisation of British Telecommunications a decade ago went hand-in-hand with the licensing of a competitor, Mercury Communications. And most of Britain's urban dwellers, whose streets are being dug up by cable companies constructing combined cable TV and telephone networks, are alive to the presence of more competitors. As other west European countries, with a few exceptions still state monopolies, struggle to privatise and liberalise, it is to Britain that they look for inspiration.

Less celebrated, but equally developed, is competition in the UK's cellular industry. When cellular telephony started seriously in the mid-1980s, most European governments simply extended the existing monopoly in the provision of telecoms services to the cellular sector. Not the UK, which at the outset licensed two cellular operators and allowed BT to take only a 60 per cent stake in one of them. Since then, competition has been the hallmark of UK gov-

ernment policy for mobile communications. At every opportunity it has offered competing licences. The policy has not invariably succeeded: initial failures among Personal Communications Networks (PCN) operators might be entered on the debit side. But most analysts agree that the UK's cellular strategy has been more effective than monopoly at stimulating subscriber growth and effective price competition.

The case is not beyond dispute. Scandinavia has achieved cellular penetration rates more than twice as high as the UK's, yet cellular competition is still in its infancy across the region. Cultural and business factors may explain the divergence: all forms of telecoms are more heavily employed in Scandinavia than across the rest of Europe, and the region's operators have long been conditioned to behave in an entrepreneurial fashion.

At any rate, the whole of western Europe – including Scandinavia – is proceeding fast down the UK road. Almost every EU state has now licensed competing GSM operators. The larger countries have either licensed a PCN operator or are about to do so.

The UK has four operators: Vodafone, launched as a subsidiary of Racal Electronics but demerged as a free-standing company in 1991; Cellnet, a joint venture between BT and Securicor; Mercury One-2-One, a joint venture between Mercury, BT's main fixed-line competitor, and US West, a US regional Bell operator; and Orange, in which the largest shareholder is Hutchison Whampoa, the Hong Kong conglomerate.

Vodafone and Cellnet, the original competitors, both have analogue and GSM networks, the latter compatible with overseas built to the same

standard. Most of their 2.5m subscribers are signed up to analogue networks: analogue handset prices are cheaper than GSM, and service quality is better. However, tariffs are comparable: as GSM service improves, the greater functionality of GSM handsets becomes apparent, and the virtues of overseas "roaming" come to be appreciated. GSM will catch up with analogue, predicts Vodafone's chief executive, predicts that Vodafone will be attracting GSM subscribers at the same rate as analogue by the end of next year.

Mercury One-2-One and Orange, the new operators, have launched PCN networks in the last year. Both lack national coverage: One-2-One is currently limited to London and the south-east; Orange to

main population centres and travel routes. However, both are building out fast, and so rapid is subscriber growth in the industry that last year's warnings that four networks were at least one too many have proved misplaced so far.

Mobile phones are enjoying

such a boom in the UK that new cellular phone connections are racing ahead of links to traditional fixed phone networks.

Net new connections to mobile networks overtook fixed network connections to BT and the cable TV companies last December, on a surge of pre-Christmas mobile phone buying. Analysts expected the mobile phone tide would ebb after Christmas, but cellular has stayed ahead every month this year except January.

The larger operators have

proved adept at expanding the market without imperilling their margins. Vodafone, the most adept of all, believes it can sustain last year's revenue per subscriber figure of £655, despite pressure on prices.

"There is plenty of room for four of us," says Mr Whent.

"We trade on our quality, national coverage, and the potential of GSM."

To gain market share, the new entrants have adopted strategies aimed at expanding the market. Both launched with an advertising blitz – which, predictably, did as much or more to boost their larger rivals as themselves. They have also sought to expand the market through careful positioning.

One-2-One has been the boldest by far, with its resi-

dent introduced serious price competition into the industry for the first time.

Branding is also becoming important, as independent service providers decline and operators seek to carve out a distinct identity based on price and network functionality. "Nobody has yet invented a brand in this business," claims Mr Hans Snook, Orange's managing director. "We intend to do so by marketing our brand benefits – lower prices, and the services available on our handsets such as multiple lines."

All four operators are anxiously positioning themselves for the rise of the mass consumer market. The trend is a repeat of the 1980s experience of the consumer electronics industry, where margins collapsed and price wars reigned supreme. Vodafone and Cellnet insist they will not be dragged down that road, and so far they have managed the market successfully. But with two competitors who both need large volumes, fast, to repay their investments, the future is anything but predictable.

three main segments which he has dubbed "data heavy", "data lite" and "consumer users" and predicts that the overall market in Europe will exceed 5m subscribers by the end of the decade.

Dataquest expects data heavy users – frequent mobile data service users such as traffic wardens, meter readers and organisations which use the services every day – will gravitate towards dedicated mobile data networks such as Ram.

Data lite users – infrequent mobile data users, such as travelling salesmen or executives who want to read their electronic mail or access an office database – are expected to turn to GSM and other networks which also provide voice services. However, Dataquest does not expect the consumer market for mobile data to develop on a large scale until "towards the back end of this decade".

The Dataquest report concludes: "While paging, public mobile radio and analogue cellular have all paid lip service to supporting mobile data communications, strong candidates to support a significant market are only now emerging in the form of packet mobile radio and digital cellular technologies. Further support from manufacturers and operators for new services and applications are required and expected."

Corporate users had a positive attitude towards mobile data communications but will need to be sold on the value which such solutions can provide if this sector is to reach its potential."

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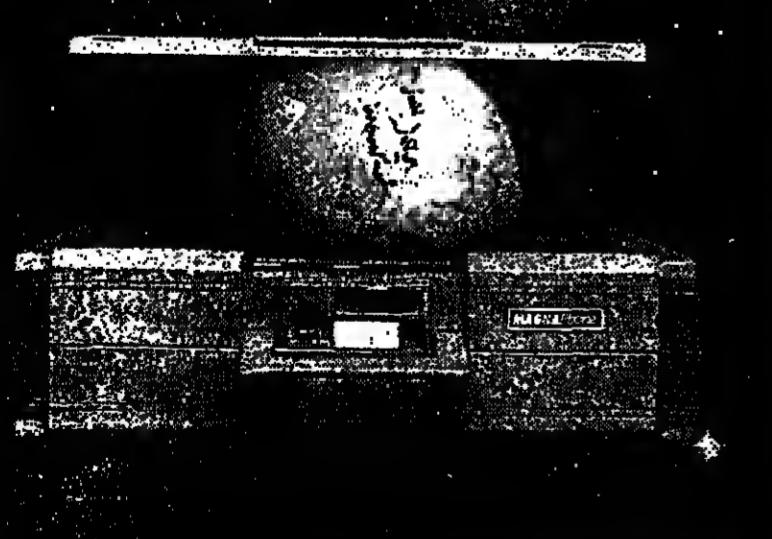
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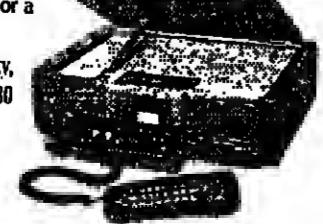
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Paul Taylor looks at the mobile data market

Customers are confused

using incompatible standards and equipment.

It is possible to transmit data over an analogue cellular telephone networks, but this is generally more difficult and considerably slower than transmitting data over the fixed public switched telephone network. As a result, relatively few business customers use cellular telephone systems to transmit data.

Data transmission over the new generation of digital cellular telephone systems, such as the GSM and PCN services in Europe should be much simpler, faster and more reliable. The GSM specification includes a facility which, once implemented, will allow any terminal – such as a portable facsimile machine or notebook computer – to be plugged directly into the handset.

Another market research organisation, Ovum, conceded in a report on mobile data published last year that, "despite services being available on cellular and public data-only networks, the market has been slow to develop". Ovum noted that despite the acknowledged benefits of mobile data, "data-only networks are facing an uphill struggle to attract subscribers and the number of data users on the cellular network is in the region of 2.6 per cent of the user base." By the end of 1993 Ovum estimated that there were just 325,000 users of mobile data in North America and Europe.

In the UK the three dedicated mobile data networks have a total of about 5,500 customers. There are, however, indications that subscriber interest is growing. In the first six months of the year subscribers to Ram Mobile Data's network more than tripled.

Meanwhile, about 15 per cent of the 45,000 subscribers to National Band Three's two-way public access mobile radio communications network in the UK now use the service to transmit data.

Mobile data customers fall into two main categories according to Ovum – vertical markets, particularly the service industries, and early horizontal markets involving industries with a significant service element in some aspect of their business.

Typically, these mobile data customers use data services to transfer engineering, customer or product information to and from portable computers, or to retrieve information from mobile data terminals used by a mobile workforce such as meter readers.

But the Ovum report suggested that the market for mobile data had been constrained by customer concern over competition between mobile data services and over the availability of networks, the price of equipment and excessively complex and expensive applications, lack of market understanding and the belief that perceived risks outweigh cost benefits.

Customer confusion is understandable. In the UK for example, excluding paper traffic, mobile data services are provided by both analogue and digital cellular telephone network operators, dedicated mobile data network operators and private and public access mobile radio networks – all

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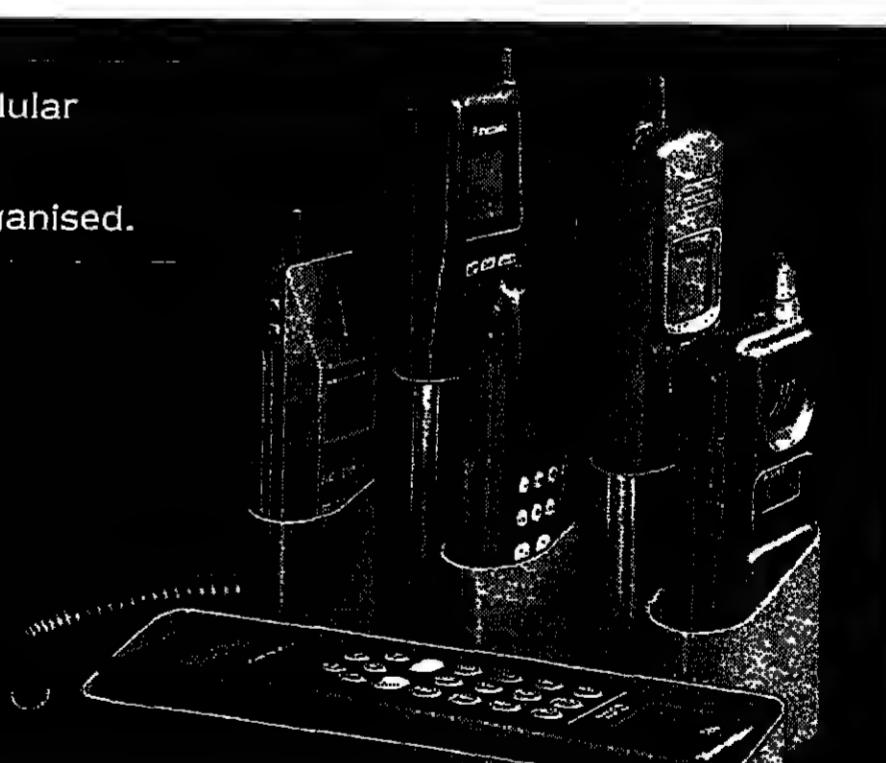
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Paul Taylor on cordless prospects

Battle on standards

The launch of telepoint services in Britain in the late 1980s was, by general agreement, little short of a debacle which culminated in British Telecom's decision to pull the plug on its Rabbit cordless public telephone service last November.

Rabbit was the last of four telepoint services in the UK to fold because of lack of customer interest but, in spite of this inauspicious start, telepoint, the UK-developed public cordless telephone service, is proving a success in some overseas markets including south-east Asia, where there are more than 300,000 subscribers.

Unfortunately, the UK systems were incompatible with each other, overpriced and poorly marketed in competition with cellular services.

Elsewhere in Europe, Deutsche Telekom abandoned plans two years ago for a telepoint service and Taitcom Finland recently announced it would close its Pointer telephone service because of the low level of take-up of the service.

This leaves France and the Netherlands as the only European countries still offering telepoint services. There are over 50,000 subscribers to France Telecom's Bi-Rop service, which recently cut its prices, and 35,000 subscribers to the Dutch Greepoint service but the prospects for telepoint elsewhere in Europe look bleak.

In contrast in Hong Kong, three operators, Hutchison, Chevalier Telepoint and Pacific Teletel, which is backed by Vodafone, the UK cellular telephone network operator, have all launched successful services and now have more than 170,000 subscribers between them out of a population of 5m.

Their success has been ascribed to the density of the population and the relatively few base stations required to provide coverage in the colony. All three telepoint operators in Hong Kong have overcome one of telepoint's main limitations - its one-way only operation by basing services on telephone and pager packages facilitating pseudo two-way operation. Calls to a telepoint telephone activate a pager and if subscribers are in range of a base station they can connect with the caller by pressing one button on the phone.

In order to further increase competition in Hong Kong, the government said in July it would award four additional telepoint licences to build networks based on the Japanese personal handypone standard, DDI, one of Japan's three domestic telephone companies, announced plans in July to invest \$12m on a telepoint network covering about half the Japanese population.

Telepoint has also proved popular elsewhere in Asia. Services have been launched in half a dozen countries, including Singapore, Malaysia and Thailand. However, China, where the first telepoint services were recently launched, represents by far the largest potential market for CT2 equipment suppliers.

Meanwhile, the technology behind telepoint has found other applications - by the end of the decade market analysts predict that up to a fifth of new office telecommunications equipment installed will be cordless.

"Wireless office equipment will grow from virtually nothing in 1993 to nearly 20 of the market by the year 2000 while wireline-based PBXs (private branch exchanges) and key systems dip correspondingly," said Frost & Sullivan, the US-based market research firm in a recent report.

The uptake of cordless business communications systems is expected to be driven by falling hardware prices and the perceived benefits of the technology in terms of mobility, flexibility and productivity. The Frost & Sullivan report predicted: "The wireless office will gain popularity as the prices of systems decline. Prime target end-users include salespeople, top management, employees in distribution and manufacturing firms and healthcare personnel.

"The popularity of cellular phones and the emergence of personal communications systems will stimulate use of wireless handsets for in-building use as users increasingly seek they are used to outside the office inside buildings."

Ericsson, the telecommunications equipment manufacturer, claims that cordless business systems can save customers up to 30 per cent of their bills as a result of reducing the need for returned calls. Cordless systems can also save on the costs of rewiring and other configuration operations, which can be around 10 per cent of the capital cost of the system for organisations running medium-sized or large PBX systems.

In addition, as Multitone, the UK-based pager and cordless telephone system supplier, points out, cordless systems are extremely cost-effective to run once installed since there are no airtime charges, internal calls are free and external calls cost the same as from an ordinary desk telephone.

Like most other cordless systems, Multitone's CS500 product connects directly to a PBX, so no expensive changes are required to an existing hard-wired system and the same desk telephones and extension numbers can continue to be used.

However, if cordless business systems are to flourish, there are several obstacles to overcome. In particular, in Europe there are two rival cordless business system technology standards: CT2, which has been adopted as an interim European standard and the more recent Dect (Digital European Cordless telecommunications) standard.

GPT Communications Systems, a joint venture between Germany's Siemens group and Britain's GEC, and Canada's Northern Telecom have been supplying cordless office systems based upon CT2 digital technology since early last year. Northern Telecom, which is also developing a Dect system for up to 1,000 users in conjunction with Olivetti, launched its Companion CT2 cordless business systems in Europe last March and has sold over 1,000 systems in Europe and the Middle East since then and over 2,000 systems worldwide.

CT2 supporters claim it is a proven and cost-effective technology ideally suited to small and medium-sized offices. CT2 handsets cost around a third of the price of their Dect rivals and are likely to be cordless.

to retain a price advantage because of the adoption of telepoint outside Europe.

However, CT2 cordless business systems face a serious challenge from systems based on the Dect standard which is backed by ETSI (the European Telecoms Standards Institute) and was designed to solve the problem of providing cordless telecommunications in high-density business environments such as offices.

Five of Europe's largest telecommunications equipment suppliers - Alcatel, Ericsson, Nokia, Philips and Siemens - which between them represent nearly 70 per cent of the European PBX market, adopted the Dect standard in March 1993 and the first Dect systems began to appear shortly afterwards.

Dect's supporters claim their systems have key advantages over those based on CT2, particularly in large office buildings where traffic is high, or for mixed voice and high speed data - and they are trying to block moves which would upgrade CT2 from an interim to a full European standard.

Ultimately, however, it will be the end users who decide which of these two cordless digital technologies succeeds. The battle between them has only just begun.

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Jola Shillingford looks at trends in mobile handsets

Perfection may be within reach

So small and perfectly formed are today's mobile phone handsets that many question whether they will get much smaller. In fact, the perfect mobile phone handset - small, light and cheap - may not be far away.

Ms Diana Jones, marketing manager of service provider Mercury Communications Mobile Services, says: "I don't believe handsets will get much smaller than the smallest models produced by Sony and Ericsson because of the mouth-to-ear ratio."

She believes that "handsets could even move in the other direction like calculators. Calculators got smaller and smaller, but then people found them fiddly to use. And larger calculators with easy-to-press buttons started to be sold as well."

So on traditional analogue networks (like those operated by Vodafone and Cellnet), she expects most business people to stay with middle-sized phones about the size and design of NEC's P4.

However, there is still scope for phones designed for the newer digital services to get smaller and lighter. Mr Bryan Van Dussen, a senior analyst at Yankee Group Europe, says: "Improvements in battery technology are the key for weight to reduce, profiles to become slimmer and talk time to increase."

Restricted battery life is a problem for both analogue and digital phones.

The current generation of batteries typically give two hours of continuous talk time and lasts 22 hours if left on and not used. This means that heavy mobile phone users often have to carry spare batteries and charge them up at night.

Manufacturers should benefit because as the weight and profile of phones falls, they will become more pocketable and therefore more appealing to the mass market.

Price is also critical. Mr Terry Barwick, director of corporate affairs for Vodafone, says: "Customers always ask three questions: How much will the equipment cost? How much is the monthly charge? And how much are the calls? The lower the cost of entry, the faster the market will grow."

At present, analogue phones can cost as little as £49 and are sometimes given away free. Those aimed at business users will usually cost £99 to £299.

GSM phones cost about £100 more for the same type of handset, and range from £200 to £500. They are more expensive than their analogue counterparts because they are not yet sold in the same volumes. But because the GSM standard has been adopted across Europe, manufacturers will be able to make large quantities and lower prices.

This has not yet happened and in fact component shortages have restricted the supply of GSM phones. However, because any GSM phone should work with any GSM network, it is possible to buy a phone in one country for use in another, where it may be dearer.

Manufacturers should benefit because as the weight and profile of phones falls, they will become more pocketable and therefore more appealing to the mass market.

Call charges and monthly charges for GSM phones have fallen in real terms, according to Mr Barwick. He says the monthly charge has stayed at around £25 and peak call charges at 25p a minute since 1985.

Charges for GSM services offered by Vodafone and Cellnet are similar (though their GSM services are completely separate from their analogue services and require different handsets).

Service providers and network operators argue otherwise, there will be continued pressure on charges with the entry into the market of Hutchison's Orange and Mercury's One-2-One services - both based on PCN

digital technology - a variant of GSM. But there are still areas where charges will be high for some time. One of these is pan-European roaming, which allows a GSM user in one country to send and receive calls in other countries with GSM networks. Roaming works through reciprocal agreements, with each operator adding a premium.

Handset manufacturers will be able to charge more for handsets that do more than just connect to GSM. For example, Nokia of Finland sells a phone that can be integrated easily into mobile data applications - such as sending and receiving text on the move.

In the longer term, dual handsets may start to appear, which can connect to more than one network. The drive for these is mainly coming from the US, where there is more than one digital standard. But in Europe, dual handsets could be used to connect to both GSM and Dect - a European standard starting to be used to provide wireless office switchboards.

The idea is that when customers phone a business, they could be put through to the person they want (without redialling) whether that person is in the office or on the move. Mr Van Dussen believes that in three or four years' time, this area could be "a terrific bonanza" for the few leading handset manufacturers who are looking into it.

This is because though dual-purpose phones may be small and light, they are unlikely to be cheap.

Joe Shillingford is associate editor of Business Computing Week, a Financial Times newsletter.

It is possible to buy a GSM phone in one country for use in another, where it may be dearer

for GSM phones should fall to the same level as more expensive analogue phones. Ms Sandra Richards, cellular phones marketing manager at NEC of Japan's UK subsidiary, expects this to happen by the end of the year.

Call charges and monthly charges for GSM phones have fallen in real terms, according to Mr Barwick. He says the monthly charge has stayed at around £25 and peak call charges at 25p a minute since 1985.

Charges for GSM services offered by Vodafone and Cellnet are similar (though their GSM services are completely separate from their analogue services and require different handsets).

Service providers and network operators argue otherwise, there will be continued pressure on charges with the entry into the market of Hutchison's Orange and Mercury's One-2-One services - both based on PCN

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MOBILE COMMUNICATIONS 6

Profile: ERICSSON

A force to be reckoned with

Ericsson, the Swedish telecommunications equipment supplier, is without question the dominant force in the international cellular infrastructure market. It has a significant foothold in every major market, and its sights are firmly focused on new opportunities - notably new digital systems, mobile data and fixed cellular systems.

Ericsson owes its success to the classic Machiavellian combination of fortune and exertion. The company's cellular division grew out of SRA, a well-established military radio joint venture between Ericsson and Marconi. Marconi chose to sell its 30 per cent stake in 1981, the year SRA entered the cellular mobile market, whereupon the venture became an integral part of Ericsson.

The radio division's rapid expansion thereafter owed much to Ericsson's existing marketing and distribution networks worldwide. It built on the success of its public telecommunications products - notably the AXE switch, which is now installed in 105 countries.

Furthermore, Scandinavia has been the world's most dynamic cellular market since the launch of the mobile phone. Sweden tops even the Nordic league with 10 mobile phones per 100 inhabitants. Cultural factors are partly responsible; but early agreement on a common Nordic cellular standard - NMT - provided a significant

boost, as did the mid-1980s decision to liberalise the supply of cellular handsets, a step taken in Japan as recently as this year. The extent to which Ericsson acted as a catalyst for these developments is debatable, but the benefit it has derived from them is unmistakable.

The bald figures tell all. In revenue, Ericsson's radio communications division last year overtook public telecommunications, as the company's largest division, accounting for 41 per cent of sales. The division's sales amounted to \$3.1bn - a 73 per cent increase on 1992. The first half of this year saw a still more dramatic surge of 78 per cent in pretax profits, powered by a 60 per cent rise in radio communications sales. Sales of mobile telephone systems and terminals were up 80 per cent.

"Everyone in the mobile industry has been successful with the massive cellular growth of recent years," says Mr Kurt Hellstrom, president of Ericsson radio systems, with a modesty befitting the division's plain and functional headquarters at Kista, a northern suburb of Stockholm. Nonetheless, he is quick to identify the "strong suits" which have made Ericsson outstanding. "We realised early on the potential for cellular mobile technology, and we were fortunate in having strong in-house divisions in all the main areas needed to develop a portfolio."

Ericsson's radio division has never

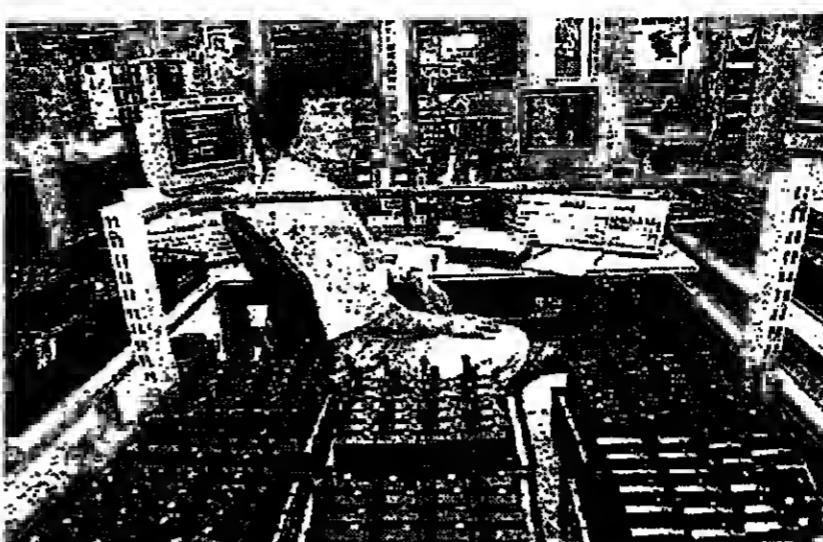
rested on its inherited laurels: it has been quick to exploit new market opportunities and has not stinted on the large R&D outlays critical to innovation in the sector. R&D spending in the radio division is running at about 20 per cent of sales. Ericsson is the only supplier to have developed widely-used digital systems based on the world's three standard digital systems - GSM (in Europe and beyond), D-AMPS (in the US), and PDC (in Japan). In January, more than half of the world's 1.3m GSM subscribers were linked to Ericsson

systems.

Last year, it responded to the acute shortage of digital GSM handsets by rapidly increasing its own supply - output rose by 150 per cent last year - although it had previously treated the handset business as marginal. Motorola of the US remains the largest handset manufacturer, but Ericsson claims now to be the world's leading supplier of digital pocket telephones.

Ericsson is the international company *par excellence*: its Swedish sales amount to only about 10 per cent of the total. It is important, however, to get behind the slogan and to understand the meaning of "international" in the Ericsson context.

Although the radio division has indigenous marketing, R&D and technical support staff in all its principal markets, Ericsson's senior management is almost



Ericsson has derived unmistakable benefit from its Swedish base

As for overseas production, Ericsson recently designed, built and installed a cellular network for the Digital Phone Group, a new competitor to NTT in Japan, in 18 months from the placing of the order. It was a record, and the entire production took place in Sweden. "It is speed of production most customers want, not local content," says Mr Bjorn Bostrom, production director. "The closeness between design and production is the key. Today, when you design a product, it has to be manufactured instantly and in high volumes; production times are becoming more complex, so the need to have your development and production staff in close contact is increasing." More than a quarter of Ericsson's radio and mobile workforce have degrees, many of them higher degrees.

More important than production abroad is the dedicated teams working with customers to design and install their networks. "This raises tricky questions of confidentiality and intellectual property," says Mr Hellstrom. "Certain operators still think that to have a vendor and to have a monopoly over them is an advantage. We, on the other hand, want to put our R&D people to use with as many customers as possible - and it is to their advantage, too."

Ericsson sees three new large cellular markets on the horizon: mobile data; fixed cellular systems to replace copper or even fibre in the local loop; and a mass consumer market for cellular phones and cordless communications. It is difficult to predict their growth rates, but safe to assume that Ericsson will play a key role in all three.

Andrew Adonis

By the end of the decade, a new generation of telecommunications satellites will provide global mobile telephone services, using lightweight pocket-sized handsets for voice as well as data communications.

Plans for multi-billion dollar global satellite mobile communications systems such as Iridium, Globalstar and Inmarsat are already well advanced and on target to launch services beginning in 1998. Others, including American Mobile Satellite, plan to launch satellite-based telecommunications services in the North American market next year.

Satellites are not new to the telecommunications industry. Geo-stationary satellites, which operate at an altitude of 22,300 miles, have played a key role in fixed and mobile telecommunications networks since the early 1960s, providing voice, data and video links over continents and oceans, maritime and aeronautical communications where land-based systems are ruled out and global positioning and tracking services for military and commercial customers.

They also provide telecommunications facilities to geologists, journalists, aid workers and others in remote regions of the world using briefcase-size portable terminals, such as those supplied by Inmarsat, the London-based 74-member International Maritime Satellite Organisation. Inmarsat uses five operational satellites to provide services to 40,000 customers, most of them in its specialist maritime and aeronautical markets.

However, projects like Iridium and Globalstar are based on a new breed of low-earth orbit (Leo) satellites which operate at altitudes of 400 to 1,000 miles. Because they are closer to earth than Geo-

stationary satellites, Leo-based systems will work with less powerful, smaller, lighter and cheaper equipment.

But there are disadvantages. Leo satellite technology - much of it based on Reagan-era "Star Wars" research - is costly and largely untested. In order to provide reliable global coverage, many more Leos are needed than would be the case with their higher-flying counterparts which also means a large number of launches, and an extended roll-out period. In addition, the satellites themselves will have a relatively short life-span of five to eight years for Iridium satellites compared with 10 years or more for conventional Geos.

Undaunted, high-powered international consortia have unveiled proposals for about half a dozen Leo-based mobile systems over the past few years while other groups have announced proposals to build new wireless networks based on conventional satellite technology. As a result, satellite communications has become one of the hottest subjects in the global telecommunications industry.

A year ago, Motorola raised \$800m from an international consortium, including Raytheon, Lockheed and Sprint of the US, Bell Canada and 18 Japanese companies including Sony, Mitsubishi and Kyocera as a first stage towards financing the Iridium project. More recently, a group of Indian financial institutions agreed to invest \$32m in Iridium and Comsat, the US satellite operator, is understood to be

discussing investing \$70m to acquire a small stake in the project.

As prime contractor for Iridium, Motorola will be responsible for designing and building the entire network and has a \$2.8bn contract to maintain and operate the system for five years after its commercial debut in 1998. By then, Motorola's stake in the project is expected to have fallen from 34 per cent to 15 per cent.

But Iridium is likely to face fierce competition from Globalstar which has secured \$275m of equity funding from

More Leo satellites are needed and they will have a relatively short life-span of five to eight years

terrestrial cellular network, it will be relayed to the nearest satellite, transferring between satellites if necessary, before being beamed down through one of 15 to 20 terrestrial gateways connected to the public telephone network or direct to its destination.

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another international consortium. Globalstar's list of strategic partners now includes France Telecom and Alcatel of France, Altonet Communications of the US, Deutsche Aerospace, Dacom and Hyundai Electronics of South Korea and Vodafone, the UK-based cellular network operator.

The company is now in talks with satellite launchers including China's Great Wall Industries. Two or three are expected to be chosen by the end of the year. Globalstar will use 48 Leo satellites orbiting at 750 nautical miles. It has been designed by Loral as a low-cost global access satellite-based mobile telephone system. Globalstar telephones will be sim-

ilar in size and cost to digital cellular telephones and will be able to make and receive calls anywhere in the world.

A key feature of the proposed Globalstar system is that all calls will be set up and processed on the ground by a distributed gateway system. Loral claims the ground processing not only permits a more efficient, less complex and cheaper satellite network; it also uses, rather than bypasses, existing communications carriers making it more attractive to them. For example Vodafone, which has acquired a 10 per cent share in Globalstar under a \$51m agreement, will have exclusive use of the Globalstar satellite service in the UK, Hong Kong, Greece, Denmark, Malta and Australia. In Australia, Vodafone plans to use the satellite-based service to supplement its ground-based cellular networks - when a mobile phone customer on the Vodafone network goes into an area that is out of range of a ground base station, the phone can switch to satellite reception, ensuring total coverage and reliability.

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Scramble

MOBILE COMMUNICATIONS 7

Louise Kehoe looks at the US market

Scramble for licences

AT&T's \$12.6bn acquisition of McCaw Cellular Communications, which was approved by US regulators this summer, has set the stage for the reshaping of the US mobile communications industry as regional cellular telephone companies and new entrants race to create nationwide mobile communications services.

The union of the long-distance telephone giant with the leading US cellular carrier creates an industry behemoth. AT&T invented cellular telephone technology more than 30 years ago and is a big manufacturer of cellular equipment, but until now it has been unable to offer mobile phone services.

The megadeal is driving regional phone companies and cellular carriers into each other's arms as they scramble to get ready to compete with the new industry force.

Since early July, two regional "Baby Bell" phone companies, Bell Atlantic, which serves the mid-Atlantic region, and Nynex, which serves New York and New England, have decided to unite their cellular operations to create a giant east coast network, stretching from Maine to Virginia and serving 1.6m customers.

US West, which serves 14 mid-western states, has agreed to merge its cellular interests with AirTouch, a recent spin-off from Pacific Telesis, the west coast regional telephone company. Together they will have 1.7m customers. Ameritech, the Chicago-based Baby Bell, is reported to be seeking a similar alliance.

The US cellular market has been fragmented since it began in the early 1980s when the US government gave out just two operating licences in each region, one for each of the established local telephone companies and one for a new, independent rival.

McCaw, which build up a national presence by taking over many of these independents, is already a tough rival to local phone companies and the injection of AT&T's long distance resources promises to make it even tougher.

Although regional telephone companies have bought up cellular licences outside their regions, this has created a jumble of networks of differing standards. As a result, cellular telephones purchased in one part of the country do not always work in other places and charges for accessing different networks can be prohibitive.

Nonetheless, the US cellular market has grown from virtually nothing in the early 1980s to more than 16m subscribers at the end of 1993 with some 14,000 new customers signing up every day, according to EMC, a Washington-based communications consultancy. The total number of US cellular telephone subscribers will reach 20m by the end of this year, the researchers predict.

with growth continuing at a rate of 25 per cent a year for the next two years.

In addition, more than 18m people in the US subscribe to paging services, which have become very popular as a low cost form of mobile messaging services among teenagers as well as by business people.

New technology is driving change in the US wireless communications industry. In December, the Federal Communications Commission will put up for auction licences to operate new "personal communications services" - using low

Paging services have become popular with teenagers as well with business people

powered, high frequency, digital micro-cell transmitters that promise to make wireless telephone services price-competitive with conventional "wireline" networks.

If the recent auction of licences for advanced two-way paging services is any indication, demand for the broadband PCS licences will be strong. The paging licences were sold for \$517m, well above the anticipated amount.

Killen & Associates, a California market research group, estimates that the sale of PCS licences will raise \$25bn to \$30bn, well above government and industry estimates of \$10bn to \$12bn.

"The FCC's recent auction of advanced paging and interactive video data service licences surprised many economists and financial analysts, who thought the government would collect only \$50m or so," says Mr Michael Killen, the group's president.

"A winning bid at the broadband spectrum auction may be the regional telephone companies' last chance to maintain some control of their core businesses," he adds.

More than 2000 PCS licences will be put up for sale. Some will be for single metropolitan markets, others for large regions. Companies hoping to put together enough licences around the US to create a nationwide PCS network will probably have to bid hundreds of millions of dollars.

Both local and long-distance companies are preparing to bid for PCS licences, some of them in teams. The looming PCS auctions are another factor driving industry alliances as companies join forces and figure out where they need PCS licences to complete nationwide mobile communications networks.

By the year 2003 nearly one in 10 US residents will be subscribing to PCS according to Donaldson Lufkin & Jenrette, a Wall Street brokerage firm. The analysts predict that PCS will not make a significant impact until 1997, but will then grow rapidly to account for 25.4m users out of a total market for cellular-type users that

will have grown to 102.6m subscribers by the end of 2003.

Yet another challenge to established cellular telephone service providers is posed by Nextel, a dispatch radio service company with ambitious plans to create a nationwide mobile communications network combining voice, data, paging and dispatch radio services.

Nextel has amassed "special mobile radio" licences, traditionally used for vehicle dispatch services, from coast to coast through a series of acquisitions and licence purchases.

But it suffered a setback last month when MCI, the US long distance carrier, withdrew from plans to acquire a 17 per cent stake in Nextel for \$1.3bn. MCI was to have been Nextel's marketing partner. The companies are still exploring the possibility of a strategic alliance, but on different terms.

Whatever happens, Nextel claims that it will be the first company to offer advanced wireless voice and data communications services nationwide. Analysts predict that Nextel will win 15 per cent of mobile communications subscribers by the end of the decade, by which time PCS systems are expected to account for about 35 per cent of the total.

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Mark Newman tries to unravel the cost of a cellular phone

Tariff packages get more complicated

Buying a cellular telephone used to be straightforward. UK operators Cellnet and Vodafone had only one set of prices and the same telephone could be used on either network.

But since the two introduced new consumer tariffs two years ago, things are more complicated. The UK now has four cellular operators, offering a total of 15 price packages on six different networks. Cellular phones cost from £20 to £300, and there are different telephone for different types of networks. If you change networks, the chances are that you will need a new telephone.

Choosing a cellular telephone and network is a confusing business. Market research company Sonofon at an average annual cost of £708, according to the X25 Partnership. France and Germany are two of the most expensive countries with annual costs of £1,874 and £1,728 respectively. The European average is £1,302. The costs assume 140 minutes of peak-rate usage and 10 minutes of off-peak calls a month.

Several operators in Europe now offer services geared to people who make only occasional use of their telephones. These have lower monthly charges but higher call rates

than ordinary services.

Sonofon again ranks as the cheapest operator for occasional users. A customer who makes 50 minutes of calls a month, of which 25 minutes are at peak times and 25 minutes off-peak, pays £318 a year over three years in Denmark. This compares with £433 in the UK, £581 in Italy, £783 in Germany and £1,020 in France.

Cellular operators are begin-

But operators such as Mercury One-2-One and E-Plus, Germany's third cellular operator, are introducing a regional element into tariffing.

This is partly because it will take them several years to build nationwide networks. At first, services will be available only in urban areas.

In response to competition from Mercury One-2-One, Vodafone has launched its own regional service called MetroDigital.

There are five different peak rates according

cuts by manufacturers and heavy discounting by German service providers means that the street price of telephones has now fallen to DM100.

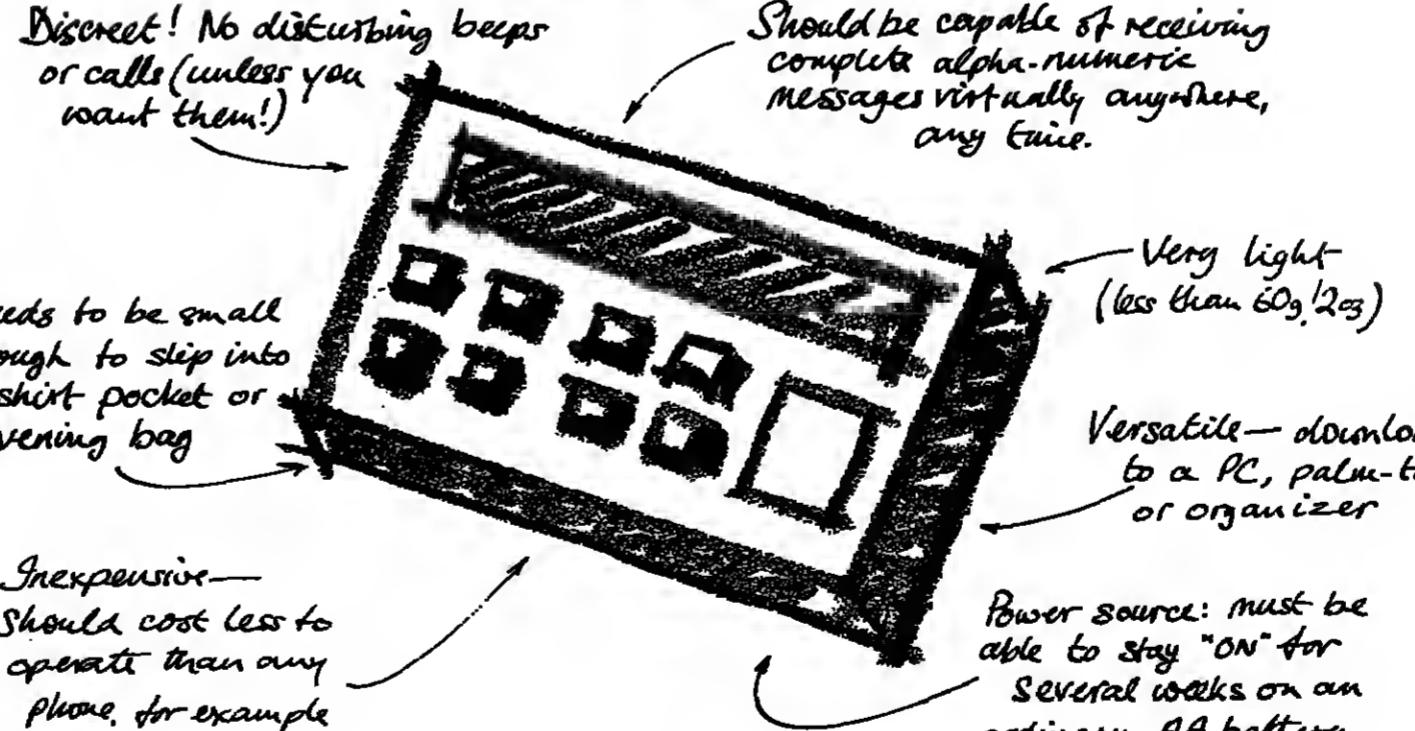
There is a large discrepancy in the price of GSM telephones in different countries despite the fact that a telephone sold in one country can be used in any other. The average price of a GSM handportable telephone in Europe is \$537, according to the X-25 survey.

But in Austria, Ireland and Italy, telephones cost more than \$1,000. The cheapest markets tend to be those where GSM sales are highest such as Denmark and Germany, or where prices have to be low to compete with analogue network services such as the UK.

The growing maturity of the cellular telephone business in Europe is evidenced by a more sophisticated approach to tariffing. Most operators now have a range of packages, aimed at different segments of the market. But potential subscribers should beware. Cellular telephone services are still several times more expensive than fixed network services, and subscribing to a service which does not correspond to your needs could prove an expensive mistake.

The writer is editor of FT Mobile Communications

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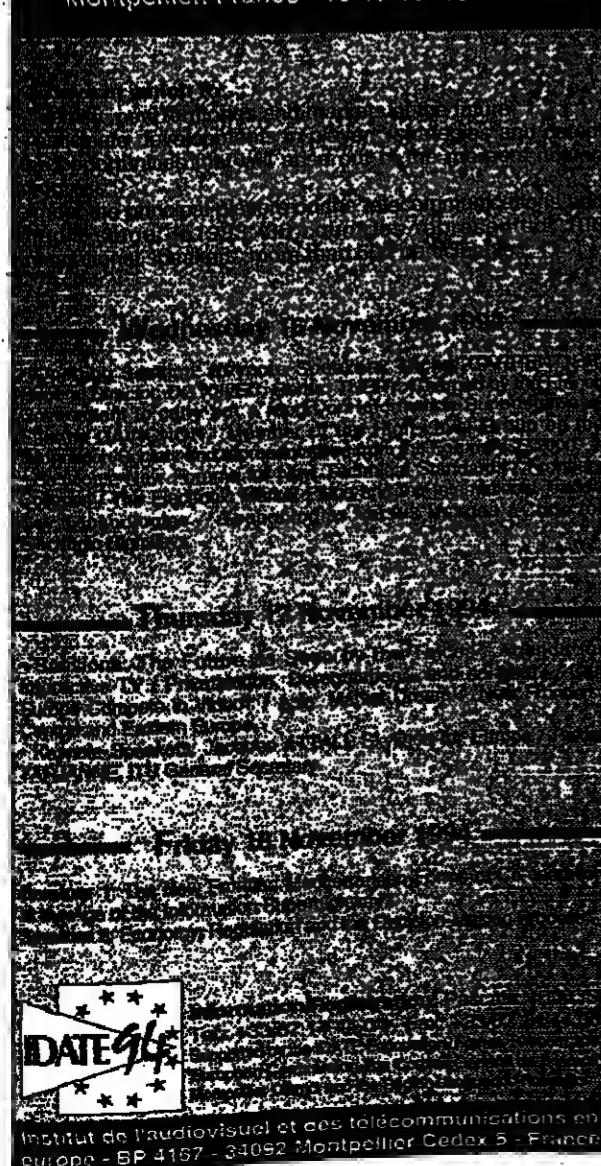
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MOBILE COMMUNICATIONS 8

Mark Newman sees state-owned operators give way to competition

Tide of deregulation sweeps Europe

Continental Europe was slow to embrace competition in mobile communications networks and services. Only three countries – the UK, France and Sweden – had more than one cellular telephone operator before the launch of GSM digital cellular networks in 1992.

But within the last two years most countries have licensed at least one competitor to the state-owned telephone operator. Even Europe's most reluctant deregulators – Spain, Belgium and Ireland – are being swept along in a tide of deregulation and industry restructuring.

The transition to competitive markets is having major implications for the telecommunications services sector as a whole. It has acted as the catalyst for change at lumbering, inward-facing state-owned telephone operators whose own mobile communications businesses had, for several years, operated in a monopoly environment.

Deutsche Telekom has spun off its mobile communications division as a wholly-owned autonomous subsidiary in a bid to inject private sector discipline and commercial practices. In Belgium, Belgacom has sold a 25 per cent stake in its mobile division to AirTouch Communications, the Pacific Telesis subsidiary. Telefonica of Spain is also considering the recruitment of a foreign partner, while Stet in Italy is being advised by its partners to float its mobile communications subsidiary.

Telecommunications operators across the world will be eyeing Hong Kong over the coming months after the recent news that the mobile communications market is about to be cracked wide open.

The territory's industry regulator, the Office of the Telecommunications Authority (Ofta), has decided to move ahead with plans that will bring unprecedented competition, perhaps even as early as April next year. Ofta aims to license up to 10 new operators across two new telecommunications, offering six licences for digital PCN – a high capacity derivative of Europe's popular GSM, and four using PHS – an almost untried Japanese technology halfway between conventional cellular and the telephone (CT-2) phone.

Not surprisingly, the existing four operators – Hongkong Telecom, Pacific Link, Hutchison Telecommunications and Smartone – are not overjoyed by the news.

Few markets measure up to Hong Kong's almost voracious appetite for mobile. Even CT-2, which proved a disaster in the UK, has been lapped up in Hong Kong. The arrival of digital technology in the territory has caused so much demand that by June, one operator, Smartone, was forced temporarily to halt accepting new subscribers to clear a backlog of several thousand applicants.

One consequence of mobile telephony's mass market appeal in Hong Kong is that pricing does not impact as it does in Europe or the US – a situation upon which industry has not been slow to capitalise.

The introduction of competition has given expansionist-minded US telephone companies the opportunity to gain a foothold in Europe. AirTouch, the company spun-off from Pacific Telesis, is the most successful US telecommunications services company in Europe. It has stakes in cellular telephone networks in five European countries: Belgium, Germany, Italy, Portugal and Spain.

Two other Baby Bells, BellSouth and US West, have also taken positions in Europe. BellSouth is the dominant force in mobile data with stakes in operators in the UK, France and the Netherlands. It is also a shareholder in cellular operators in Denmark, France and Germany. US West owns 50 per cent of Mercury One-2-One, the UK's third cellular operator.

Vodafone Group, the UK cellular telephone operator, is emerging as the dominant force in cellular communications in Europe alongside AirTouch. It has stakes in cellular operators in six European countries other than the UK – Denmark, France, Germany, Greece, Malta and Sweden. Vodafone is relying on its overseas interests to boost its profits in the second

half of the 1990s when competition in the UK will inevitably slow profit growth. Vodafone's overseas cellular interests, which also include stakes in cellular operators in Australia, Hong Kong and South Africa, are valued at around £1.5bn.

In most cases, companies such as Vodafone and AirTouch have taken only minority stakes in cellular operators. Licences are awarded on the basis of "beauty contests" and national licensing bodies tend to favour bidders with strong local interests. The largest single shareholder in a bidding consortium is usually a local company. For example, German industrial group Mannesmann has a 51 per cent stake in Mannesmann Mobilfunk, and in Italy, Olivetti is a 36 per cent shareholder in Omnitel Promot Italia, the group which won Italy's second cellular telephone network licence earlier this year.

For companies like Olivetti and Mannesmann with little or no tradition of operating in the telecommunications sector, the award of licences has offered them the

possibility of expanding into a profitable new sector and reducing their reliance on core businesses.

The European Commission firmly endorses the transition to competitive markets. Its green paper on mobile communications published in May says member states should license at least two GSM digital cellular operators, and one personal communications network operator.

But the Commission has not been instrumental in the deregulation of the mobile communications sector. By this time its green paper was published in May this year – 2½ years later than originally planned – most governments had already decided in favour of licensing at least one competitor to the state-owned operator.

"The Commission is confirming trends that have already been established," says Mr George Metaxas, a legal expert at the Brussels office of Stanbrook and Hooper.

"This market has been driven in a legal sense by itself. What Brussels has done is not exactly an 11th-hour intervention, but

they have certainly left it until the ninth or 10th hour."

In other respects, however, the Commission is making a bid to lay down its own agenda, according to Mr Metaxas. "There are now new issues emerging such as roaming and restrictions to service providers."

Roaming is the ability to use your telephone on a network in another country. With the new GSM system it is possible to make and receive calls across the whole of western Europe. But cross-border roaming has aroused controversy because it makes it possible for someone to take out a subscription in one country, but use the telephone primarily on a network in another country.

Telefon und Funk, a German cellular telephone dealer, started selling subscriptions last year to a Danish GSM network. Telefon und Funk customers could make calls on both German GSM networks but would be billed by the Danish operator.

The German operators complained and the dealer was forced to abandon the sale of subscriptions to the Danish network. But the dealer, backed by the Commission, is

now having its case heard at the European Court of Justice.

Another Brussels proposal which is opposed by a number of cellular operators is that they should be required to sell their services via wholesalers or service providers. Service providers would retain a share of around 20 to 30 per cent of subscriber revenues, and would be responsible for billing and customer management.

The concept of service provision is central to the Commission's green paper on mobile communications published in May. Another important recommendation – one which the cellular operators are firmly behind – is that they should be allowed to build their own long-distance networks, or use third-party networks, rather than hand calls over to the state-owned operators. A number of cellular operators believe that the charges levied by the state-owned operators for handling calls are too high, and are preventing them from lowering the price of their cellular services.

After a slow start, continental Europe is now warming to the potential of mobile communications and the benefits of competitive markets. The total number of cellular subscribers in Europe is growing by 60 per cent a year compared to only 30 per cent in the period 1990 to 1992. This coincides with the impact of competition. In 1990 there were 22 cellular operators in 19 countries offering 22 different services. Today, 33 operators offer 87 different services.

operators. The Philippines has five, Malaysia has six, while Hong Kong and Thailand have four. Japan tops the list with a total of nine competing networks. Yet the country that lays claim to the highest penetration level of mobile users, Singapore, has achieved a base of 6.3 per hundred population, through a monopoly provider, Singapore Telecom. ST offers attractively-priced tariffs with monthly access fees at \$850 and airtime charges of 20 cents per minute across the board.

But the wave of liberalisation sweeping across Asia has not stopped at Singapore, and ST will be working hard to ensure the greatest returns from its mobile monopoly before it is joined by a second cellular operator in three years' time.

While analogue networks still form the lion's share of Asia's mobile networks, they will soon be overtaken by digital. Almost all new licence awards in the region stipulate that digital technologies be employed, of which Europe's GSM has proved the most popular.

According to the London-based communications consultancy, CTT Research, there could be over 80m digital cellular users in the Asia-Pacific by 2003. The largest market will be Japan with over 12.8m, followed by China with around 7.1m. In only nine years' time, says CTT, some 2.1m South Koreans, 1.9m Australians, 1.8m Thais and 1.3m Taiwanese will be carrying digital cellular phones, at which time the total market for mobile services in the region will be worth \$20.3bn.

The writer is editor of the FT Asia-Pacific Telecoms Analyst

The Hong Kong market is to be thrown open to competition, Jenny Walker reports

A dash for mobility all across Asia

Ofta's plans to throw open the market has left analysts divided. Some claim that the market will be swamped, causing prices to plummet, meaning casualties for some operators. Others say that the operators have long acted as a cartel maintaining artificially high charges, so increased competition would be welcome. What is sure is that the tenders for operators will see international giants queuing up with hopeful bowls extended.

One question which Ofta's move has thrown up is just how high the demand for mobile telephony can go. Hong Kong already has one of the highest penetration levels of mobile users in the world at 4.9 per cent, yet Ofta believes the market is far from saturated. It suggests that demand could rise to 1.1m users by 1998 – almost a quadrupling of existing users over the next four years.

While Hong Kong's runaway mobile success now rarely makes headlines, China's booming cellular market does so regularly. With a fast-growing economy, an increasing proportion of well-heeled potential customers, and a sorry shortage of fixed-line connections, cellular phones sales have rocketed, with subscribers increasing by more than 300 per cent annually over the past two years.

China's most important economic region, Guangdong, will have spent \$1bn on cellular equipment by the end of the year, by which time its mobile users could even overtake Hong Kong. This growth has been achieved despite the high cost of connection and handset fees which at Yuan 20,000 (\$2,500) work out at 12 years' salary for the average worker.

One interesting phenomenon unique to the Chinese market is a preference for large handsets.

The bulkier the model, the greater the attraction, for there is great prestige in being seen to carry a large handset, however brick-like it may appear across the cultural divide.

With little alternative in terms of fixed-line connections, over 150 cellular networks covering all major cities and ambitious plans for far greater capacity coming on stream, China's extraordinary growth levels look set to continue. By the end of 1994, the number of mobile users is expected to top 1.2m. There are few markets where cellular telephony can truly claim to have taken the place of fixed networks, but China is one.

While India too offers this potential,

In China, there is great prestige in being seen to carry a large handset, however brick-like it may appear

with fixed-line penetration at a mere eight lines per thousand population, plans have been stalled by lengthy court battles over licence allocations for Delhi, Bombay, Calcutta and Madras. When mobile finally arrives in the subcontinent, the effect could be dramatic.

Interest throughout south-east Asia has quickly picked up, with Malaysia and Thailand clinching growth rates of around 70 per cent in 1993. Not far behind were Australia, the Philippines and South Korea, all clocking up over 50 per cent growth.

Even the Japanese market – where interest has long been modest given the size of potential demand – has recently seen a sudden dash for mobility. Mobile phone users jumped by 488,000 between April and July – more than the total of new subscribers recorded for the whole of 1993 – and handset sales are expected to top 1.5m by the end of the year. This sudden spurt of interest coincides with the opening of digital networks and a change in the law, allowing Japanese customers to purchase their handsets, rather than rent them, for the first time.

The latest digital handsets are proving far more popular than analogue varieties, despite being about 30 per cent more expensive. The result has seen Japan kick-started onto a higher plane of growth.

Another market rapidly rising up mobile statistics charts is Thailand. Here the main spur to demand, particularly in Bangkok, has been competition between handset dealers. A basic analogue model now retails at Bt30,000 (about £780) and a digital handset goes for Bt35,000. In the capital, a shortage of public phone boxes and relentless traffic jams, which keep people in their cars for hours at a time, has also helped boost interest in mobile.

Unlike China, a dearth of fixed lines may not matter so much in Bangkok, since those who can afford a mobile almost certainly have a fixed-line phone. This does not hold true for provincial areas where waiting lists for connection to fixed lines are long. Demand in rural areas is set to rise for the odd reason that long-distance calls are cheaper on a mobile than on the fixed-line network.

One spur to growth in Asia's mobile markets is competition. The regulators have been willing to issue licences to new

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FINANCIAL TIMES SURVEY

Broker's lot is not a happy one; liberalisation becomes a global trend Page 2

REINSURANCE

Monday September 5 1994

A slightly easier year for London Page 3; liability of employers reviewed Page 4

Price reductions are again on the agenda of international reinsurance underwriters and brokers, gathering in Monte Carlo this week for their annual conference. But the increasing scale of catastrophe losses, graphically underlined by the mounting toll of claims from this January's Los Angeles earthquake, means rate competition is unlikely to be acute.

Despite the introduction of some \$7bn of fresh capital into reinsurance ventures in the past two years, growing exposures - the result of economic, demographic and even climatic change - are putting an increasing strain on the industry's capital base and forcing reinsurers to re-examine traditional approaches to their business.

Earlier this year the influx of new capital - much of it raised to support new ventures based in the offshore Bermuda market - stirred fears in some quarters that the reinsurance industry was returning to the kind of competition which proved so disastrous in the late 1980s.

Events this year provide some evidence of softer market conditions. Some Australian and Japanese insurers - who renew their annual policies in April and July - did pay less, with rates down by as much as 15 per cent for Japanese buyers, for example. And a number of brokers expect to be able to obtain quite substantial cuts in prices when they start negotiating to renew covers for European and some American buyers over the next few months.

"We can probably obtain a 25 per cent saving in reinsurance costs, taking into account deductibles and price," said one leading London broker. "And you can certainly budget for a 15 per cent cut."

However, there are indications that rates will not fall much further. Reinsurers point out that prices for catastrophe cover are many times higher than they were five years ago. Mr Richard Keeling, one of the leading reinsurance underwriters at Lloyd's, says that rates are holding in the US and that

Reinsurers are reviewing their traditional ways of doing business as they cope with the mounting cost of catastrophe losses, says Richard Lapper

Price cuts are in the wind again

his syndicate has shed exposures rather than follow the market down. Following the violent fluctuations in international capacity in recent years, many buyers want to secure long-term relationships with reinsurers, points out Mr Keeling, adding that concerns about "longevity" are outweighing those linked to price.

"Many companies realise they really need reinsurance. They've seen the dark side of the moon and are not reckless in abandoning long-term relationships," explains Mr Keeling. Other Lloyd's underwriters also argue that the market is likely to remain stable. Another Lloyd's underwriter says he expects "the market will renew pretty well as before".

Every area of the Lloyd's market is under "gentle pressure" he continues, but underwriters are still more worried about losing their jobs than losing premium.

Especially for reinsurers with US exposures the Los Angeles earthquake has provided a useful reminder about both the scale and uncertainty of exposures. Loss estimates from the quake were originally estimated at some \$2bn but have been successively revised upwards, with the current figure of \$7.2bn, representing the US industry's second most expensive catastrophe after Hurricane Andrew.

"Everybody is kidding themselves over the extent of the exposure," notes Mr Jacques Bloudeau, chairman and chief executive of SCOR, the rapidly growing Paris-based reinsurance company.

"People were over optimistic. Computer models were just not

accurate enough. It is striking to see how poorly equipped we are to measure these catastrophes."

These perceptions mean that reinsurers are continuing to insist on much tougher conditions for insurers underwriting business in areas highly exposed to catastrophe risks, with more selective pricing and higher deductibles.

And reinsurers are also becoming much more selective about the companies they choose to reinsure. "They want

One longer-term response is that reinsurers increasingly recognise the need for financial strength and security

to understand what the underwriter is doing much more than they did before," says the chief executive of one of the UK's composite insurance companies.

Outside the catastrophe area reinsurers have questioned the logic of granting unlimited liability coverage on employers' liability and third party liability covers. Unlimited cover of this kind looks likely to disappear from the market almost entirely in 1995.

"It is very hard to argue that any individual or corporate body actually needs the luxury of unlimited coverage. The loss events covered can be quantified and as insurers and reinsurers we should not leave the door open to rampant legal and social inflation," points out Mr John Engstrom, chief executive of Mercantile & General.

"All we are really trying to do is provide contractual encouragement for long-term relationships," explains one London reinsurance broker.

"Nobody wants to buy or write a risk for just 12 months," says Mr Matthew Harding, chairman of Benfield, who insists that cedants take a compulsory co-insurance on all

contracts he brokers. "The customer base in the industry wants continuity and certainty. The emphasis should be on continuity rather than price."

In other ways, too, reinsurers - both brokers and underwriters - are looking for longer term responses. For one thing, there has been an increasing recognition within the industry of the need for financial strength and security. Many smaller firms have withdrawn, while bigger ones have chosen to work closely together.

Earlier this year two of the industry's largest companies - Cologne Re of Germany and General Re of the US - agreed to form a "strategic alliance". The new holding company, in which the US group will have a majority interest, has been hailed as a third force in the market to challenge Munich Re and Swiss Re. "There has been a sorting out of the industry, with those companies that offer size, security and capacity coming out on top. The top seven or eight are playing a different game from the rest," said an industry analyst.

There are also signs that reinsurers are developing products which can attract a broader class of investor. Scepticism in the industry about the future of reinsurance derivatives is widespread. Nevertheless there are signs that interest and take-up of the new derivative products is growing, following the launch in December 1992 of the Chicago Board of Trade's catastrophe futures and options contract.

Although the volume of business at the exchange is still modest - exposures on the Chicago contract amount to an estimated \$25m - interest in an "over the counter" product - a loss warranty product which uses the Chicago contract's loss index - is much greater.

Enthusiasts such as Mr Andrew Martin, managing director Sedgwick Payne Insurance Strategy, say the development of derivative products could eventually bring greater flexibility and transparency to the reinsurance market. Capital markets could become more willing to trade reinsurance risks, he suggests.



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REINSURANCE 2

Trevor Petch examines the new growth markets in Europe, Asia and Latin America

Liberalisation is in full swing

In recent months liberalisation of the insurance industry throughout the world has reached a speed which only the most optimistic would have predicted at the beginning of the 1990s.

Steady progress towards the single market in western Europe, finally completed on July 1 this year, has been paralleled by the creation of the North American Free Trade Area (NAFTA) linking the US, Canada and Mexico, and in South America by the Mercosur Common Market between Argentina, Brazil, Paraguay and Uruguay.

The opening of the markets of eastern and central Europe followed naturally from the collapse of the centrally-planned economy.

Although most states have retained a measure of control over foreign involvement in insurance and reinsurance, it is anticipated in most cases that this will disappear by the end of the decade.

With the exception of the Baltic states, these restrictions are generally tightest in the former USSR. Earlier this year, important progress was made when both Russia and Ukraine, as part of wide-ranging economic co-operation agreements with the European Union,

agreed to liberalise access for EU insurers by spring 1995.

In Asia, the impetus for more open markets was the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The General Agreement on Services (GATS) was eventually agreed at the end of last year.

Insurance is one of a number of problematic areas dealt with by complex annexes agreed in a last minute compromise. One effect of these was to create a period of two years during which the US in particular will remain free to try to use bilateral pressure to force access to insurance markets it considers closed. Insurance is one of the three areas it has chosen to include in negotiations with Japan.

A number of governments which have traditionally favoured purely national insurance markets have recognised that in the medium-term, open markets are inevitable. This year, Taiwan has permitted a number have also set up in Vietnam.

The growth potential for primary insurance is perhaps most obviously apparent in the Communist and former Communist countries in economic transition. In the medium-term, open markets are inevitable. This year, Taiwan has permitted

investment in insurance by non-US insurers (US companies were already able to operate), and measures of demobilisation and denationalisation are under way or under active discussion throughout the Indian subcontinent.

Most major international insurers are opening offices in China in preparation for the expected opportunities there,

In former Communist states, risks for which cover was not provided are now being insured

and a number have also set up in Vietnam.

The growth potential for primary insurance is perhaps most obviously apparent in the Communist and former Communist countries in economic transition. In the medium-term, open markets are inevitable. This year, Taiwan has permitted

investment creates its own additional requirements, especially in commercial lines.

Last month an important breakthrough was made when American Re announced that it had successfully placed a \$500m (£750m) property cover for Russia's largest truck-maker KamAZ with leading international reinsurers and Russian insurers. Last year KamAZ lost its western-equipped engine plant in fire which cost in the region of \$375m and was completely uninsured.

Another particular area of growth, in which the role of reinsurers has been central, is motor and health lines related to foreign travel.

Growth in any insurance market will also follow general economic growth, and this is the major factor in the Indian subcontinent. In some ASEAN member countries, growth by medium-sized industrial companies is particularly strong.

International investors are

once again turning their attention to Latin America after the "lost decade" of the 1980s, and as in the more developed industrialising markets of Asia, the traditional progression from domination of insurance market volume by commercial lines to a greater incidence of personal property and life and savings business is to be expected.

In most of the major markets of Latin America, the pension and private health sectors are also major areas of expansion as the role of the state decreases.

In all areas, however, while Munich Re is "prudently optimistic" about the potential for growth of insurance and reinsurance business, it is careful to emphasise that it is much more circumspect in its analysis of the prospective results.

In the ASEAN countries, for example, the reinsurance market is already very competitive, and margins are "quite low, to say the least," the company says.

Catastrophes are another worry, especially in areas where there is risk both from windstorms and earthquake. Last year Cologne Re announced that it planned to cease providing catastrophe cover in Latin America on a proportional basis.

Munich Re began to require clients to take more active measures to control aggregate catastrophe exposure, and expressed particular concern over adequate pricing of the earthy element of property covers.

In all areas, however, while Munich Re is "prudently optimistic" about the potential for growth of insurance and reinsurance business, it is careful to emphasise that it is much more circumspect in its analysis of the prospective results.

As one reinsurer points out, a significant proportion of any major catastrophe loss is a large number of household claims of relatively low average value, a value which tends to increase the worse the catastrophe is because of the upward pressure on repair costs.

The lesson of this year's Northridge earthquake in the US was to demonstrate that a "number of extremely well-run insurance companies misvalued their exposure," he says.

Nor does deregulation bring automatic benefits to reinsurers. In countries such as Chile, Colombia and Mexico, deregulation was at first accompanied by a sharp increase in competition and a decline in original premium rates.

In markets which have been protected by a domestic reinsurance monopoly and regulated tariffs, the level of underwriting expertise is often low, while fear of competition can delay correction in rates even when results deteriorate.

Nor does the volume of reinsurance premium itself automatically increase with liberalisation. If there is market concentration or significant local investment by large multinational insurers, retentions may increase significantly. In Argentina, for example, in 1989 reinsurance represented 27.7 per cent of total direct premium. The monopoly reinsurer INDER was closed in 1981, and premium ceded is now around 13 per cent.

• Trevor Petch is editor of the Financial Times newsletter *World Insurance Report*.

NOTHING INTERESTING IN THE NEWS, I HOPE?



with scant resources, will not keep up with the pace of change. Those that do, should finish in better shape.

Emphasis is now on the recruitment of high-calibre personnel who can put their shoulders behind the push for professionalism. But if client numbers are dwindling, brokers need to forge for new business. Although they refuse to be afraid of change, if it enhances the service we offer our clients," says Mr Williams. "I do not believe that computers will replace face-to-face negotiations, certainly not with lead underwriters, they will simply reduce the amount of time and effort spent trudging round the market from one underwriter to another."

By streamlining the business, brokers hope to cut costs and promise to pass the savings on to their clients. The broker's raison d'être is to serve the needs of the client. If there are fewer clients it stands to reason there will be fewer brokers. Some, particularly the smaller firms

mandate to move with the times, but they look back with longing at the old ways. "Technology is revolutionising the broking industry. But we should not be afraid of change. If it enhances the service we offer our clients," says Mr Williams. "I do not believe that computers will replace face-to-face negotiations, certainly not with lead underwriters, they will simply reduce the amount of time and effort spent trudging round the market from one underwriter to another."

By streamlining the business, brokers hope to cut costs and promise to pass the savings on to their clients. The broker's raison d'être is to serve the needs of the client. If there are fewer clients it stands to reason there will be fewer brokers. Some, particularly the smaller firms

Brokers discover that the good old days of assured profits are gone for ever, writes Naomi Caine

Now it's every firm for itself

surprised the market and cost the broker £25m.

The shakeout in the insurance industry has created a market of fewer, larger clients. Brokers are therefore desperate to hang on to their exist-

The harsh reality is a shrinking customer base that wants lower costs and higher value

ing clients and to engage in the bitter battle for new ones.

But the sophisticated insurance company client base demands that brokers prove their worth. There is, after all, always the temptation to deal direct. "It is no longer enough for a reinsurance broker simply to place a client's risk. Nowadays, the successful broker is a fully-fledged consultant who offers the client a

whole range of skills and services," says Mr John Pelly, chairman of non-marine reinsurance at Willis Corroon.

Mr Corben agrees: "The reinsurance broker of the future will provide a far more technical and knowledgeable service than has been the norm in order to add value to the process. He must be sufficiently trained to understand aggregations and be able to do some basic statistical analysis."

The insurance industry is often accused of living in the technological stone age, but reinsurance brokers are embracing technology as a means of offering their clients a bespoke service. Facilities such as CATMAP in the US allow brokers to analyse risk profiles down to the very last detail, ensuring clients buy a policy that exactly matches their risk exposure.

"Clients want to know who

is underwriting their risk and need to have the utmost confidence in the security of that underwriter," says Mr Alan Williams, deputy chairman of Alexander Howden reinsurance brokers.

The search is on for high calibre personnel who can strengthen the push for professionalism

It is the broker's job to vet security with an up-to-date system.

Networks, such as LIMNET and RINET and the Electronic Placing Support, a London market initiative due to go live on January 1 1996, should speed up the broking process and lead to a more efficient and cost-effective business. But brokers have mixed feelings. They have read the

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REINSURANCE 3

Bermuda's success raises hackles, says Trevor Petch

A faster profits centre

In July, Dr Hans-Jürgen Schindler, chairman of Munich Re, the largest reinsurance company in the world, warned that it was already becoming difficult again for reinsurers to obtain reasonable conditions for catastrophe business.

He told a German newspaper that it would not emulate some of its competitors in establishing a subsidiary in Bermuda to specialise in this area, and in an unusually forthright comment suggested that some of these, attracted by the high rates currently on offer wanted "to make a quick dollar".

Such comments are familiar to the eight property catastrophe specialists based on the island. One local observer suggests wryly that Bermuda has suffered "a slide into critical acclaim".

Mr Henry Keeling, chief underwriter for Mid Ocean Re, the first of the new specialist companies established in November 1992, believes any supposed conflict with "traditionalists" is illusory. "Reinsurance is a truly global business," he says. "Bermuda is simply the most efficient place to put our capital to work."

According to Mr John Dowling, chief executive of International Property Catastrophe Re, mainly owned by leading US insurers and reinsurers, the key issue is the success of the Bermuda market; the problem is that some observers measure success in a different way.

The new companies are not a threat to the rest of the world market but a complement to it, Mr Dowling believes, drawing attention to the quality of both the capital and the personnel which they have recruited. They have also passed the acid test of securing a customer base among major - and very discriminating - property insurers, he says.

Mr Michael Butt, chief executive of Mid Ocean, also identifies the "flight to quality" as the key feature of the new market, which he suggests requires investors with a first

Bermuda's coming of age has been marked by the coming of the catastrophe specialists

factor which might reduce the limited length of time for which they could enjoy better margins.

Mr Dowling points out that while Bermuda may have raised \$45m in new capital, with perhaps another new \$1.5m in London, this still represents less than the \$10m which is often given as the amount withdrawn from the reinsurance market since 1987 - and there have been huge global losses from hurricanes Andrew and the Northridge earthquake since the new companies were formed.

Mr Keeling observes that "there is still too much demand and not enough supply, especially in the US".

He points out that the new companies write a "completely different" business mix than the so-called traditional reinsurer. By focusing closely upon property catastrophe business, stronger underwriting discipline can be exercised and aggregation and volatility controlled. By taking advantage of a low cost base and efficient use of capital, the maximum benefit of such wider margin business can be enjoyed.

Mr Butt believes that the quality of the security offered will become "ever more important" as client concern over uncollectable reinsurance increases.

A variant of the "margin reduction" criticism runs: unless catastrophes simply fail to occur, how can the above average returns promised to investors be generated except by writing other lines where margins are also temporarily attractive?

In order to protect their asset base, the property catastrophe specialists must underwrite premium as a fraction of their capital (30 to 50 per cent is typical). Mr Dowling stresses that \$45m in capital for underwriting predominantly low frequency/high severity business does not mean the same volume of premium written as it would for a multi-line reinsurer.

While it is true that most of the property catastrophe companies do write perhaps 40 per cent of their book in other property reinsurance, marine and aviation, Partner Re (the largest in terms of share capital), Tempest Re and Centre Cat are currently exclusively property catastrophe companies.

More significant is the fact that none of the new companies write long-tail liability business. "Our capital is transparent, unencumbered by such claims from the past," Mr Dowling says.

A third area of concern, hinted at by Dr Schindler concerns the period and terms on which capital has been committed to the new ventures. One new facility which did not receive support from the capital markets was Compass Re, which was to have had a life span of about five years. The Compass Re vehicle will be finally wound up on September 23.

If the non-insurance institutional backers of the new ventures are not long-term investors and are not to be rewarded by high current dividends, the implication is that they expect to make substantial gains through stock placements, as the initial investors in finite risk reinsurers were able to do. They will maximise their return if they can sell at the top of the market.

Although most if not all of the new ventures emphasise that their return on capital is to be measured over a long period, and stress their long-term commitment, observers such as rating agency Standard & Poor's have indicated reservations about whether the new facilities can prosper in a soft market as well as in a hard one.

Mr Butt responds that the reputation of the investors is such that they cannot afford simply to walk away. "Over the next 10 years, reinsurers must offer their clients a greater degree of stability," he says, adding that "The concentration of capital into larger units with professional investors is necessary if that role is to be fulfilled."

For reinsurers, September brings the Rendezvous in Monte Carlo and the start of the North American hurricane season. Last year, however, proved relatively disaster free and against the background of harder reinsurance rates, much improved results for the 1993 year are already emerging, writes LEE COPACK.

The UK's largest reinsurance company, Prudential subsidiary Mercantile & General, transformed a loss of £143.5m on its general business in 1992, which pushed the whole company into loss in 1993, into a £6m profit in 1993 and an overall profit of £104m.

For the first time since 1989, members of the London companies group, the London Insurance and Reinsurance Market Association (LIRMA), enjoyed a positive cash flow during 1993 - this was the £245m by which members' premiums processed by LIRMA's processing bureau exceeded claims.

To some extent the current situation mirrors the market conditions of the mid-1980s when underwriters took measures to improve deteriorating results. Better rates, together with a year, 1986, which was extraordinarily free of major losses, resulted in a surge of capital into the market. Lloyd's capacity doubled from £25bn in 1984 to £50bn in 1987.

The effect of the resulting competition on rates and conditions was exacerbated by an unprecedented series of catastrophes. The results are well known, the repercussions still being felt.

The spectre of profits slipping has already made its appearance. As Matthew Hardinge, the chairman of specialist reinsurance group Benfield, puts it: "There hasn't been a disaster for five minutes, so people think there won't be another."

He believes that for the market to work insurance and reinsurance must retain a sizeable element of fortuity; premiums can only be a relatively small proportion of the potential exposures. Therefore, catastrophe risks which may remain clear for several years before a disaster strikes are particularly vulnerable to misplaced optimism.

Competition certainly has returned in some classes, according to John Pelly, group managing director of UK and North American reinsurance at broker Willis Faber & Dumas. For example, Bermuda companies anxious to avoid an accumulation of North American catastrophe risks want to write business from other parts of the world. But reductions have not been sweeping, he says.

However, that does not

"There hasn't been a disaster for five minutes, so some people think there won't be one"

mean that the spate of natural disasters partly responsible for the recent losses is necessary over. Announcing the company's 1993 results, the chairman of Munich Re, Dr Hans-Jürgen Schindler, commented: "The insurance industry's exposure to large catastrophe losses was quickly demonstrated again by the Los Angeles earthquake on 17 January 1994 and the windstorm and flood damage in Germany that also occurred at the beginning of the year."

He added that there were "no grounds for relaxing our efforts to determine and implement risk commensurate prices".

The problem for reinsurers is to determine and keep to such a price. Because of the nature of reinsurance, by the time it is clear that the rates charged were inadequate, competition may well already have depressed them further.

The 10 years of reinsurance statistics published earlier this year by London Insurance and Reinsurance Market Association (LIRMA) reveal that, while in property business the claims picture is reasonably clear after two years, there can still be blips, and even without the complications of asbestos and environmental pollution, in long tail business the account may continue to develop over four or five years and the picture in marine may be more exaggerated.

When rates look profitable,

"IF JACKSONS IS HANDLING THE INSURANCE, SIMPSONS IS HANDLING THE REINSURANCE AND WE'RE HANDLING THE RETRO INSURANCE, WHO THE HELL IS HANDLING THE RE-RETRO INSURANCE?"



■ LONDON AND LLOYD'S

A suspiciously long lull

There are few real barriers to entry into the market. The shortage in capacity produced by insolvencies and withdrawals since April and analysts question how much unsatisfied demand there is for corporate involvement in Lloyd's.

However, other factors may help to slow the pace of competition. The benefits of increased rates and the relatively few insured catastrophe losses in 1993 are unlikely to last long enough to make up more than a small proportion of the funds which have been brought into Lloyd's corporate capital.

Over four years Lloyd's has lost £5.6bn, including loss-making reserves for past years. In 1991 and 1992 LIRMA members lost £1.4bn net on their reinsurance underwriting, and this does not include how those 13 groups which have become insolvent since 1990.

So institutional investors from outside the industry are cautious. Interest rates are now significantly lower than they were in the mid 1980s which should make reinsurance less tempting as a cash flow machine, and economies recovering from recession are offering other investment prospects.

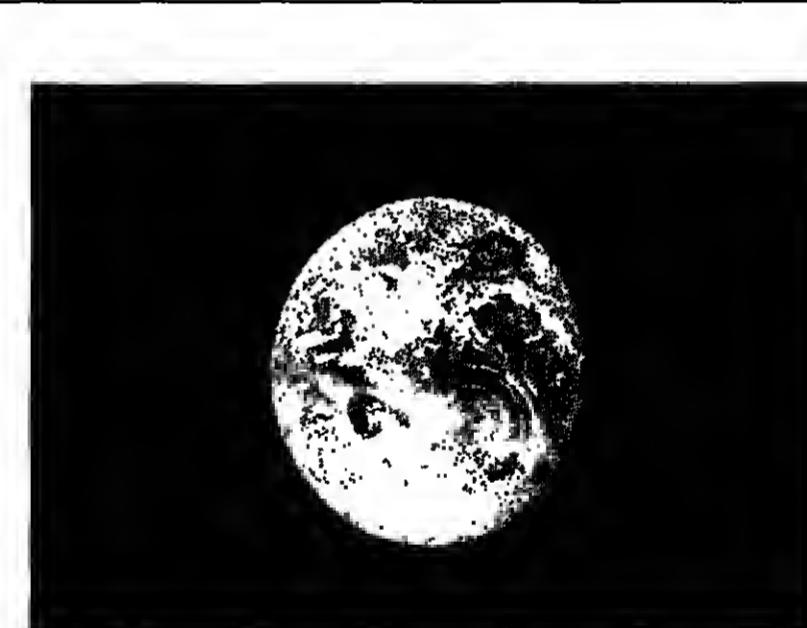
The stock market performance of the Lloyd's investment trusts, initially sparkling, has been lackluster since April and analysts question how much unsatisfied demand there is for corporate involvement in Lloyd's.

This problem continues to plague the London market, particularly Lloyd's, because it has gone on so long. Half of Lloyd's loss of £2.048bn for 1991, the most recently closed underwriting year, was made up of increases in reserves for prior years of account, but its chairman, David Rowland, argues that Lloyd's is almost certainly better reserved than most of its competitors.

The latest estimate by respected rating agency A. M. Best puts the ultimate cost to the US insurance industry over the next 25 years of environmental and asbestos damages in the US at around \$132bn, excluding any meaningful refund of Superfund. This amount is equal to 72 per cent of the industry's current capital and surplus. Yet US liability rates remain soft.

What now seems a terrible burden to the London market may eventually provide a significant, competitive advantage, because adequately reserved insurers will be in a strong position if others are forced to raise prices to pay for old losses.

• Lee Coppock is co-editor of Global Reinsurance and Global Risk Manager.



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REINSURANCE 4

Claire Wilkinson discusses the forthcoming changes in reinsurance of UK employers' liability

Unlimited cover is on the way out

From the beginning of next year reinsurers plan to introduce limits on all employers' liability contracts, restricting cover to between £5m and £10m per policy. For UK employers, by law required to purchase a minimum of £2m indemnity, these restrictions spell the end of unlimited cover.

Increasing exposures to catastrophic liability claims, combined with a rise in occupational disease claims, have led reinsurers to make the break from tradition. The Association of British Insurers (ABI) estimates that employers' liability insurers, excluding Lloyd's, paid out claims of £541m in 1992, compared with £430m in 1988.

"Over the last few years the market generally for reinsurers has been hit by all sorts of losses so we have been trying to make our business more controllable. We certainly have not been making enough profits to justify continuing to offer unlimited cover," says Stephen Riley, deputy general manager (non-life) at Stena Re (UK).

The 1988 disaster on the North Sea's Piper Alpha oil rig cost the market an estimated £120m and induced reinsurers

to reconsider the issue of unlimited cover.

Stephen Riley explains: "The Piper Alpha loss gave force to the worries that there was potential for a large industrial accident to occur, affecting large numbers of people and there to be a mega claim. Frankly, the premium basis we were operating on was not sufficient.

The Piper Alpha blaze showed that premiums had been insufficient

sufficient to cover that claims exposure." In the wake of Piper Alpha, the reinsurance industry imposed treaty restrictions, leading most insurers to exclude offshore exposures, or limit their liability to £2m per occurrence.

Accidents apart, the growth of occupational diseases such as deafness and asbestosis has

placed further pressure on the employers' liability market. Emerging diseases such as repetitive strain injury (RSI) have also contributed to the rise in claims.

According to ABI estimates, industrial diseases now account for about 50 per cent of total employers' liability claims, compared to under 20 per cent some 10 years ago. While individual disease claims tend to be relatively low, liability is spread over many years, making it difficult for insurers to predict future claims. "The problem is that you've got large numbers of people involved and the time lag between first exposure, manifestation and settlement of the claim can be 25-40 years," says Stephen Riley.

Reinsurers are not so exposed to the occupational disease problem, however. "We don't have a major back-year problem on UK employers' liability

claims experience can take up

to nine years to run off. For a risk insured in 1984, for example, it may be 2003 before all claims are paid and outstanding reduced to zero," he says.

Lack of profits and high exposure to long-tail risks has driven both insurers and reinsurance from the market in recent years. In 1993, two major players in the unlimited liability reinsurance market, Nederlandse Reassurantie Groep (NRG) and NW Reinsurance Corp, ceased underwriting. According to Stephen Riley, their withdrawal increased the likelihood that there would be no further cover available and that many companies would have difficulty in placing unlimited reinsurance.

At the same time insurers

have been questioning their commitment to provide employers' liability insurance.

"It now appears that 80 per cent of employers' insurance measured in premium terms is written by only eight insurers. Of these eight, three control something like 40 per cent of the market," says David Thomas.

Contraction in cover and impending limits on exposures

insurance and reinsurance. If our own insureds are trying to compete with us, that is not a very easy pill for us to swallow."

According to employers' liability reinsurers, the introduction of limits will enable them to gauge their future liabilities more accurately and ultimately to offer more capacity in the market.

As Stephen Riley says: "placing limits on it will certainly lead to more accurate assessment of the price that ought to be charged. In the long term if we all feel more comfortable about it, we will be able to offer more capacity to our clients."

It is also hoped the restrictions on cover may coax employers to take more preventive measures to limit their own exposures, in turn reducing the level of claims.

"Employers must recognise that the only way to control the cost of employers' liability insurance is to control the cost of claims. Risk management is the key issue both for insurers and the insured," says David Thomas.

• Claire Wilkinson is a writer on the Financial Times newsletter World Insurance Report

THE CHAIRMAN WOULD LIKE TO CHECK OUR PERSONAL INJURY POLICY BEFORE HE ADDRESSES THE SHAREHOLDERS



Talk to a typical reinsurance underwriter, broker or claims manager about insurance and reinsurance derivatives and you will usually be met with a blank gaze – what one enthusiast for this new breed of financial products calls the "dead mullet look".

Yet despite widespread scepticism in traditional circles, interest in reinsurance futures and options contracts is slowly growing. Trade in the catastrophe futures and options contracts launched in December 1992 by the Chicago Board of Trade is small but the volume of transactions has increased more than ten-fold in the last year.

More important, the development of the exchange-traded product is directly influencing the reinsurance market, leading to the effective emergence of an "over the counter market" for catastrophe reinsurance options.

Leading reinsurers such as the Centre Re, part of the Swiss Zurich group, are already active in the market. Brokers are exploring the potential. And there are signs that US investment banks see the development of the market

as a means to gain access to the billion dollar reinsurance industry, which collects rating and claims information from insurance companies.

The ISO index is based on a loss ratio (premiums as a percentage of claims), which is calculated from reported losses and premium income reported by companies over a

The trade in catastrophe futures, launched in 1992, is steadily expanding

three month period. Contracts are priced according to moves in the ISO loss ratio with the settlement price of each increasing by \$250 for each 1 per cent upwards movement in the ratio.

For example, while a loss ratio of 20 per cent would give each contract a value of \$5,000, a loss ratio of 100 per cent would give a value of

\$30,000 (ie \$250 multiplied by 120).

Contracts priced on this index are labelled in the last month of each quarter with the price of the March contract based on losses incurred from January 1 to March 31 as reported from January 1 through to June 30.

Trade in these futures contracts has been non-existent. However, reinsurers and investors have been more active in trading options on these contracts. Indeed by the beginning of August the CBOT registered 5,370 separate trades on the eastern catastrophe options, the most heavily traded catastrophe contract.

Most of the contracts are "call spreads" options, used to limit and isolate a particular layer of risk, explains Dr Morton Lane, managing partner of Lane Financial, a company which advises brokers trading on the exchange.

For example, buyers might pay for an option to buy a contract when the loss ratio reaches 40 per cent and sell an option for the loss ratio exceeding 60 per cent. This effectively gives the buying company a tranche of protection similar to that available in excess of loss reinsurance contracts.

Mr Lane concedes that the amount of exposure covered by the eastern and national options contracts is "tiny", with exposures covered (as represented by open interest – those contracts that have yet to be settled) amounting to no more than \$25m.

Premiums paid for the options amount to about \$5m, he estimates. Yet interest has risen steadily. Exposures are up from between \$2m and \$5m a year ago. The number of houses active in trading the contract has risen from between six and eight a year

ago to more than 20 today.

"Most significantly many of the big investment banks have now got involved," says Mr Lane.

In addition, despite the limited activity on the exchange, the developments in Chicago have given a boost to over the counter trading in derivative contracts.

Derivative contracts can be purchased at any time and can be traded products.

The most important trend here is the willingness of a small number of reinsurers to use the ISO index as an integral element of a specialist excess of loss contract, the loss warranty policy.

Claims on a loss warranty policy are triggered by two sets of losses: firstly, those on the reinsurance policy of the

buyer; secondly overall industry wide claims in the quarter.

The exchange has stimulated a change in the way certain franchise covers are underwritten.

People have started using the ISO numbers and the trigger related to the industry-wide loss has become more important," says Mr Lane.

Observers believe that as much as 20 times more business could be traded over the counter as on the exchange itself. The growth in the OTC market is attracting attention inside the reinsurance industry.

Already significant reinsurers are becoming significant players. Zurich Insurance – through its US subsidiaries – is one active player, and a number of other companies have hedged their own exposures by buying call options on the exchange.

Traditional reinsurance con-

tracts retain important advantages. Not least, they are individually underwritten and directly cover an agreed group of exposures providing – in derivatives parlance – a "perfect hedge".

Yet derivatives also have their attractions. While the price of a traditional reinsurance contract is generally known only by broker and underwriter, derivative contracts are transparent.

Reinsurance contracts are negotiated once a year and their price can vary sharply from year to year. Derivative contracts by contrast are more flexible. Cover can be purchased at any time and contracts can be traded.

Advocates of the new products also argue that the traditional reinsurance industry cannot provide enough capital to cover the mounting scale of catastrophe risks.

"The risks exposed are increasing faster than insurers' capital and capacity," points out Sedgwick's Mr Martin. "We want to move to the point where we can buy and sell insurance and reinsurance risk to the capital markets."

Richard Lapper finds that a widening range of derivative products is arousing growing interest

Into line with other financial markets



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